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INNOVATION IN THE POSTAL SECTOR: Strategies, Barriers and Enablers

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Introduction

The postal sector in general and the letter mail industry in particular are undergoing substantial changes. These changes, largely brought about by deregulation and globalization, include growing competition, changing customer demands and the more widespread use of new information and communication technologies¹. Governments are expecting higher returns and increased productivity, whilst often demanding universal service. Within this context traditional postal operators are stretched to the limit of their technological, organizational and management capabilities. In order to grow and build sustainable competitive advantages in such a context, these organizations need to innovate. Only through innovation does it become possible to deliver the necessary productivity increases and to continue to meet customer's growing expectations in a digital world. In this study we will examine how postal operators perceive and deal with innovation. This study is thus aimed at providing both evidence and guidance to postal decision-makers in their strategic decisions about innovation.

Study Objectives and Methodology

The purpose of the study is to analyse the state of innovativeness in the postal sector, with a specific emphasis on the traditional letter mail industry, and to understand what barriers these organizations face when they try to innovate. The study is based on a survey among the top management of a small representative sample of the world's most important postal operators.

Study Objectives

- Understanding of the differences in strategies towards innovation that exist within the postal sector;
- Identification of the main barriers to innovation;
- Identification of possible enablers of innovation; and

Methodology

In this study we consider the letter mail industry as an industry in transition from a traditional national monopolistic and vertically integrated sector to a commercially

¹ See the 2006 EPFL Report: Abdallah, F., Felisberto, C. & Finger, M. (2006) "Historical Operators & New Technologies", Chair MIR – EPFL.

organized industry, providing innovative services and interacting with its external, increasingly complex environment.

The study is supported by a survey conducted among some of the world's historical postal operators. The questionnaire was sent to all the OECD countries and a selection of other European, Asian, African and Latin American historical operators. The aim was to have a representative sample illustrating the heterogeneity of strategies with regards to innovation found within the sector. In total, 57 operators were asked to participate. The questionnaires were addressed to these operators' CEOs, CIOs or other top management members. The participants were contacted by e-mail. The email contained the internet link that would lead the respondents to the online questionnaire. Twelve posts responded to the study: *Belgium, Denmark, Fiji, Finland, France, Hungary, Italy, Mongolia, Netherlands, Slovakia, Turkey, and the United Kingdom*. Within the report the individual operator is treated anonymously.

Summary of Key Findings

This study shows that the postal sector is reacting positively to the increasingly dynamic business environment. We demonstrate that there is diversity in the strategies adopted by operators, but that many are becoming increasingly innovative.

Our major findings are:

- **Innovation strategies in the sector:** The business environment of the letter mail industry and postal sector in general is changing. Faced with these changes operators need to adopt clear strategies with regards to innovation. We propose a framework of generic strategies and show that these strategies are represented in the sector. We found that quite a number of the sampled operators are both market and innovation oriented. Furthermore, we identified customer service, new service development, promotion and marketing, and staff training as being the areas with most unexploited opportunities for innovation in the sector.
- **Barriers to innovation:** We identified the most important barriers to innovation as perceived by industry executives. The most important internal barriers have to do with being too slow to make decisions, too much bureaucracy and having a corporate culture that doesn't encourage creativity. The inability to attract top innovative talents was also identified as a big barrier. Among external barriers government regulations and the limited potential of home markets are the biggest barriers.
- **Innovation enablers:** Top management are the most important enablers of innovation, closely followed by customers and middle management. Not only is it necessary for top management to create a corporate culture that encourages innovation, but it is also important to listen to the customer when designing new services.

Innovativeness in the Postal Sector

The postal sector and the letter mail industry in particular, have been undergoing enormous changes in recent years. The new business environment is not only characterized by increased competition, but also by a rising use of information and communication technologies. The ability of any operator to create and sustain competitive advantages over the long term, will depend largely on how well the operator deals with changes in its environment, and manages to exhibit innovative behaviour. In a changing environment, innovation is a key to adapting to change, overcoming organizational weaknesses, and adding value to the organization's products and services. Although innovation is often technology-oriented, non-technology innovation is equally important, particularly in service industries.

Exhibit 1

Innovation Orientation

	Strongly Agree	Agree	Somewhat Agree	Disagree	Strongly Disagree
My organization is innovative when compared to other postal operators	17%	25%	42%	17%	0%
Management in my organization actively seeks innovative ideas	25%	42%	25%	8%	0%
People are penalized for new ideas that don't work	50%	25%	25%	0%	0%
Innovation is readily accepted in program/ project management	33%	25%	25%	8%	8%

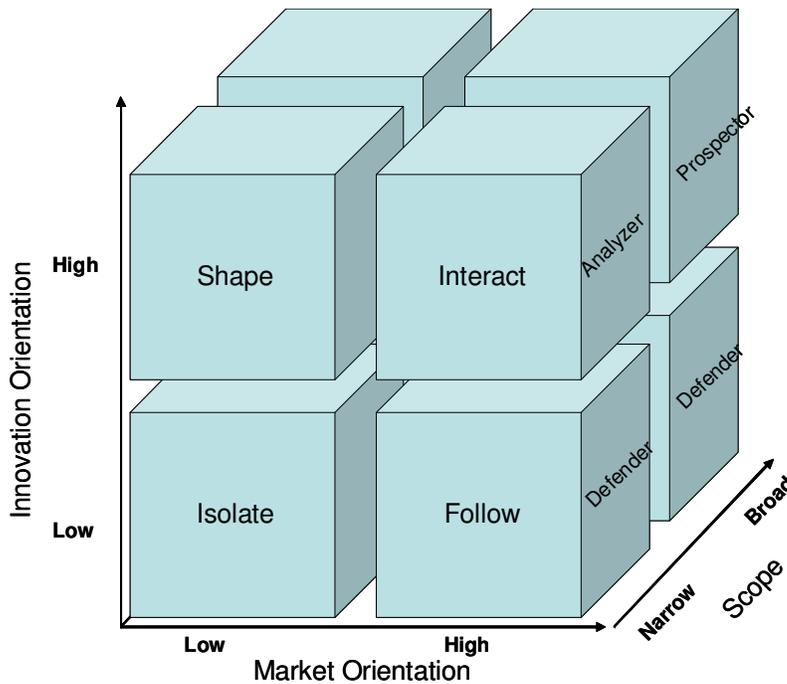
Strategy and Innovation

Innovation, or more precisely innovation orientation, is widely recognized to be a major dimension of the strategy of a firm. Numerous studies have demonstrated the significant positive competitive advantage and profitability outcomes from adopting innovation, and in particular incremental innovation. We asked a number of questions of our survey respondents to measure the innovation orientation of their organization, some results of which can be found in exhibit 1.

In most industries it is common to find some diversity in the strategies adopted. Some firms are more innovation oriented and others less. Some firms aim to appeal to a wide product or service market, while others focus on a narrower niche. Some firms are very market or customer-oriented, whilst others are not.

It is possible to create a typology, or taxonomy, of generic strategic stances. By taking the three strategic choices of innovation orientation, market orientation and product/service scope, we end up with a limited number of generic strategies. First we can compare the possible strategies linked to innovation orientation and product/service scope. This leads us to define three generic innovation/scope strategic types, to be found in exhibit 2.

Exhibit 2
Strategic Types



The *defender* typically tries to maintain stability in its product or service areas. The defender is rarely at the forefront of change, preferring to protect its existing market by offering higher quality or value for money. The innovation orientation of the defender tends to be low. On the other hand, the *prospector* actively seeks to innovate and values being the first to enter new product or service areas or exploit new opportunities. The prospector responds quickly to change and is willing to take some risks. The *analyzer* organization tries to maintain a stable product line, whilst at the same time monitoring changes and opportunities. Although seldom the first to adopt new ideas, the analyzer is often second-in: selectively and within its core business area.

Market Orientation and Innovation

Customer or market orientation can be defined as the ability of a firm to understand and serve the needs and wants of its customers. It is generally believed that being market oriented leads to higher performance. Having said this, market orientation alone is often insufficient, particularly in a very dynamic environment. In such an environment, new needs and wants of customers can be created and new opportunities for profit explored. In an earlier study by the Chair MIR of the EPFL, it was found that evolving customers' demands is one of the most important drivers of change in the postal sector². Customer lifestyles and demands have profoundly evolved, in a significant part due to the development of information and communication technologies. Customers today prefer tailored services that take into account their differentiated needs. Moreover, in the information society customers ask for ubiquitous, interactive, and flexible services. Therefore it is only logical that many studies have found that both innovation and market orientation have important effects on the long-term performance and survival of firms. The two orientations are, however, independent of each other. It is possible to be market oriented without being innovation oriented and vice-versa.

It is possible to define four basic generic strategies based on market and innovation orientation. These are found in exhibit 2. The so-called *isolate* strategy is one where the organization remains very focussed on itself. There is little or no interaction between the little innovation that takes place and the market. Organizations running in the isolate mode are typically very focussed on internal efficiency and short-term profit. Little or no product or service development takes place.

In the *follow* strategy, the market drives innovation. The innovation that takes place directly responds to today's customers' demands. It is typically aimed at improving the quality of existing products or services. In contrast, the *shape* strategy is one where innovation shapes the market. Rather than focussing on existing markets and needs, the organization proactively develops new products or services to address needs the customer didn't even know he had. A famous example is the Sony Walkman. Market research at the time showed that existing customers were not interested in a portable cassette player, yet the chairman decided to develop the walkman anyway, and it became an instant hit.

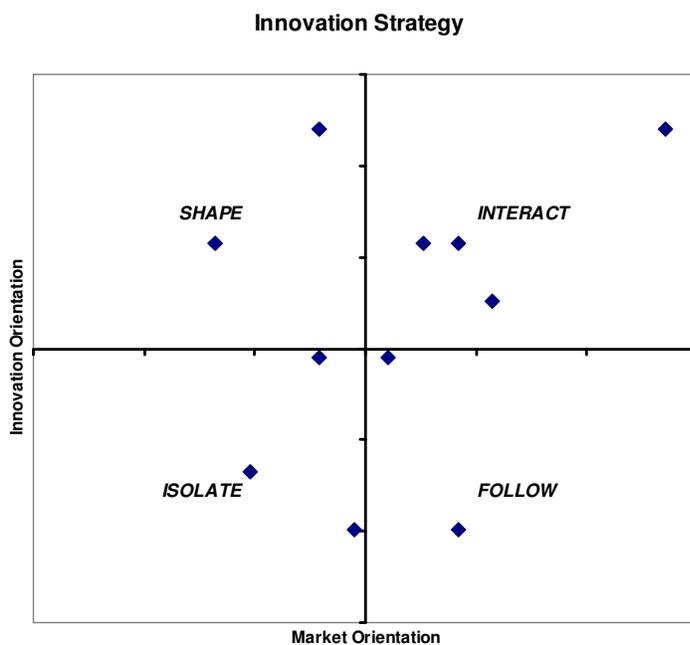
The *interaction* strategy occurs when there is a true interplay between the market and innovation. In *interact* mode the organization manages to both respond to market needs, whilst at the same time creating new needs and pursuing new product development in a kind of perfect symbiosis with the market.

² Abdallah, F., Felisberto, C. & Finger, M. (2006) "Historical Operators & New Technologies", Chair MIR – EPFL.

It is important to point out that there is not necessarily a good and bad, or right and wrong strategy to adopt. In different contexts and environments, one strategy may be more successful than another. Furthermore, at different times in the history of an organization or industry, it may be necessary to change strategy to respond to environmental changes. Some empirical studies support that in a stable environment the *isolate* and *follow* strategies may yield superior performance, whilst in a dynamic environment the *shape* and *interact* strategies seem better.

In the case of the postal sector, our survey found that with one exception, the organizations pursuing either a shape or interact strategy, were also the best performing ones. This might lead to the conclusion that in this sector these are the right strategies to adopt. However, such conclusions must be viewed with a lot of caution as the rate of environmental change is not the only variable to consider when adopting a strategy.

Exhibit 3
Market/Innovation Orientation Strategies



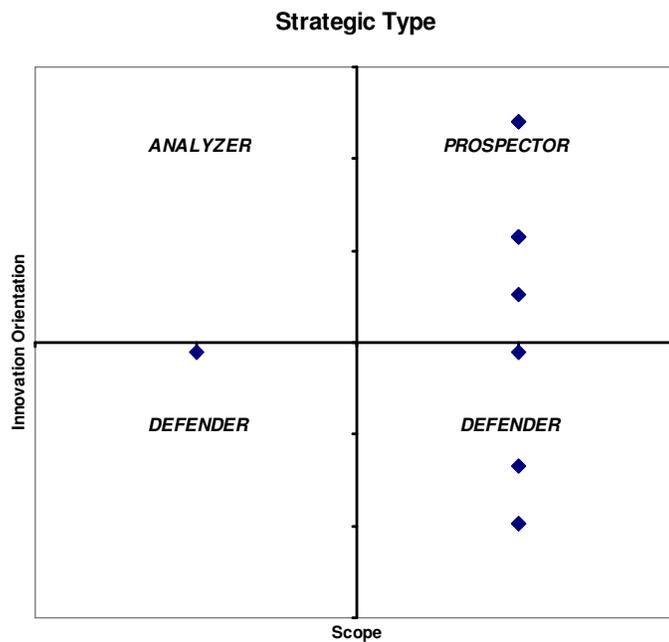
Strategic Types in the Postal Sector

In our survey of the postal sector we based ourselves on commonly used measurement instruments to determine the extent of the respondents' organizations' levels of market and innovation orientation. The data collected indicated that within our sample all four generic types of market/innovation orientation strategies were

represented, as indicated in exhibit 3. This shows that there is some diversity among operators as to both levels of market orientation and levels of innovation orientation.

It is a common cliché that postal operators are not very innovative, but this is not necessarily true. These organizations are increasingly embracing innovation as a way to create new competitive advantages, to enter new markets and to exploit opportunities. In fact, as can be seen in exhibit 4, we found many prospectors in our sample, which may indicate that many posts are currently in a phase of actively seeking new opportunities to explore.

Exhibit 4
Innovation/Scope Strategies

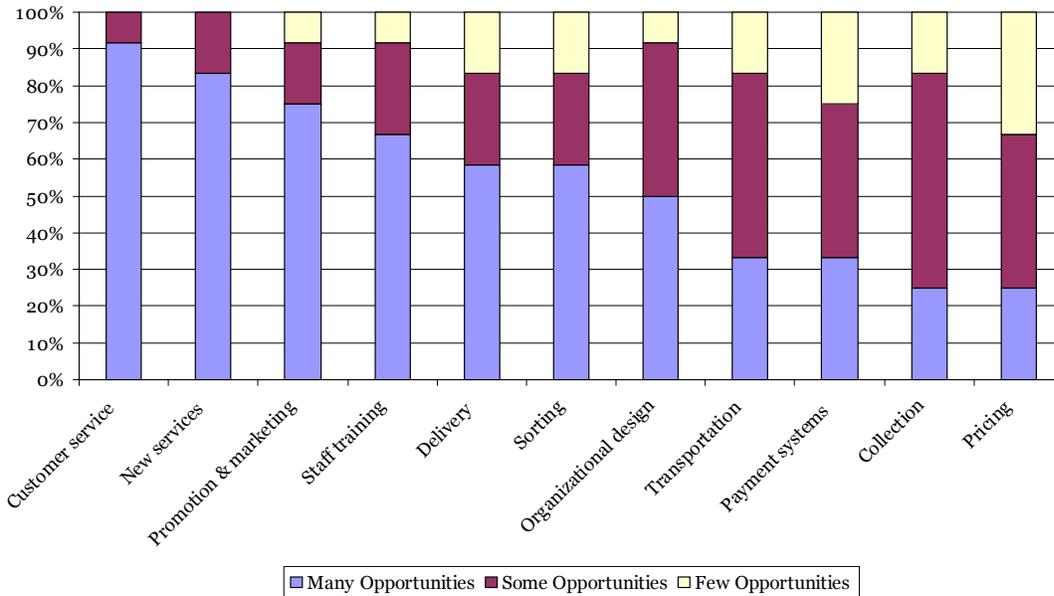


Given the relatively dynamic postal environment of recent years it is only logical that we should observe many posts making aggressive moves to innovate. Having said this, an important number of operators are adopting a defensive strategy to deal with change, perhaps seeking to protect former and existing protected market areas. With deregulation such strategies come into question.

Opportunities for Innovation

We wished to use our survey to identify potential areas for innovation within the sector. We asked respondents whether they believe there are many, some or few opportunities for innovation within some specific areas. The results, shown in exhibit 5, showed clearly that some areas are seen as high potential and some as having less potential. It must be stressed that these results reflect the perception of the respondents, not necessarily reality. We will comment the most important potential areas for innovation.

Exhibit 5
Potential for Innovation



Customer Service

Over 90% of respondents identified customer service as an area with many opportunities for innovation. This should not be surprising. As we identified earlier in this study, changing customer demands is one of the key trends affecting the sector. These changes are both a challenge and a source of opportunities for operators. Responding to these changes by increasing service quality delivery is a key to better serving the market. It is true that for any firm used to operating as a monopoly, service quality, and being market oriented in general, is a challenge. Within such a context,

the opportunities for innovation in the way you serve the customer are bound to be numerous.

Creation of New Services

Creating new services is in many ways complementary to service quality. Creating a new service does not mean having better quality per se, but does create the image that the firm is trying to better serve the customer by offering more choices or better value. The creation of new services can be a way to increase customer loyalty and if it is accompanied by efforts to deliver better service quality, such a strategy can be a winning one. This effectively amounts to pursuing the interact strategy discussed earlier in this study.

Promotion and Marketing

Within the specific context of the postal sector, promotion and marketing can be both a way to better market your own services and be a product in itself. We anticipate that in our survey respondents understood our question to mean the promotion of the operator's current product portfolio. It is clear that as former monopolies, most operators have historically not been forced to be very innovative in the way they promoted and sold their products. In the new competitive environment, effective marketing becomes a tool to better inform and serve the customer.

Staff Training

The postal sector is in many developed economies facing particular challenges when it comes to human resources. The postal sector is often not considered a very attractive sector to be employed in, although this situation is gradually changing. The traditional model of employment, with a fairly rigid system, is no longer compatible with a rapidly changing environment. In such an environment, staff competencies need to be regularly updated, and traditionally strong hierarchies and organizational routines need to be broken down. The successful adaptation to a changing environment depends largely on the skills available in the organization and on the ability to think and act "out-of-the-box".

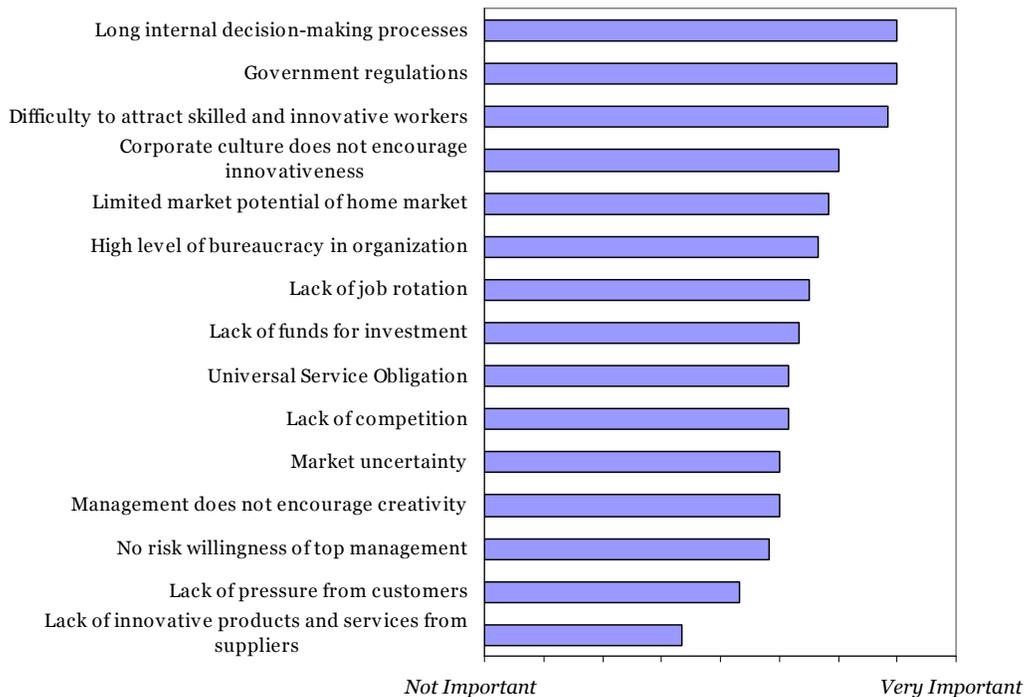
In conclusion, we can say that very positively, many postal operators appear to be getting more aggressive and proactive when it comes to innovation. Furthermore, the sector recognizes the need for innovation and where this innovation can take place. There are, however, important barriers preventing innovation. We will examine these in the next section.

Barriers to Innovation

This section deals with barriers to innovation, as perceived to exist within the postal sector. It is common to think of innovation barriers as being only linked to the specific behaviour of the organization and its members, but the barriers can also be linked to the environment within which the organization operates. Barriers to innovation can be both internal and external to an organization.

Internal barriers to innovation are often the result of so-called organizational routines. Over time, an organization tends to stagnate and to gain inertia. Put differently, it is not necessarily in the nature of an organization to constantly change. Routines are regular and predictable behaviour patterns. Over time, any organization will develop routines whereby each employee will know his job, focus on his job, become more efficient at his job and stop learning from other people's jobs. This specialization often binds the organization together in a clear and stiff structure. Unfortunately, management will often encourage and promote this, effectively preventing routines from changing. Yet, it is precisely a change of routines that is needed if the organization is to innovate and adapt to a changing environment.

Exhibit 6
Barriers to Innovation



Internal Barriers

Exhibit 6 illustrates the results of our survey. Among the greatest barriers to innovation in the sector, identified by our respondents, we find both internal and external factors. Among the internal ones, linked to organizational routines, our respondents logically pointed to high levels of bureaucracy in general. However, we find that the greatest barrier has to do with speed.

Respondents perceive long internal decision-making processes to be a great hindrance to innovation. Many operators are simply too slow to make innovative decisions. Studies have shown that being slow to make decisions on innovative or creative ideas increases the risk of missing opportunities or of being outsmarted by competitors. Perhaps worse, being slow to decide on creative ideas tends to send a negative signal to the most creative employees within the organization. When management fails to adopt new ideas or spend too long discussing and improving on these ideas, they unfortunately tend to lose the commitment of the managers or employees who came up with the idea in the first place. Such employees, who are in fact the most valuable innovation assets of the organization, may lose motivation and seek employment elsewhere.

The above is intimately linked to another identified innovation barrier, namely the ability to attract creative talent to the organization. We have already mentioned that the sector is not often perceived as being an innovative and stimulating sector to work for, and this problem is only exacerbated when management fails to respond to creative behavior within the organization.

In view of the previously discussed barriers, not surprisingly, we find that our respondents mention corporate culture as a particular problem. Management defines and enacts the corporate culture of any organization. If the culture does not encourage creative and innovative behavior, again this amplifies the difficulties in attracting and retaining creative employees. This is why very successful high-innovation companies like Google, spend so much money and effort to attract and keep highly creative employees, by encouraging and rewarding creative behavior. In fact, Fortune recently (re-)named Google the best company to work for in 2008.

External Barriers

Among the most important external barriers to innovation identified by our respondents, we find government regulations. Such regulations may limit the scope of action and make impossible certain strategic decisions and moves for the postal operator. For instance it may be impossible to enter a new market or pursue some particular opportunity.

Another external barrier concerns the size of the home market. In most service industries a limited home market size is not a major obstacle to expansion and innovation. In many cases a limited home market will simply lead to the early internationalization of firms in the industry. Small countries, like Switzerland, often

give birth to highly international product or service firms. One only has to look at companies like UBS, Nestlé or Novartis for examples of world-class leaders, who have managed to grow and be successful despite a fairly limited home market. Within a highly regulated sector, the situation is, however, very different. The possibilities for international expansion for a historical postal operator are very limited and often only possible in specific areas (such as parcels, express or financial services). Some innovations simply require the benefits of size and economies of scale to be feasible for an operator. If the home market is not of a sufficient size to create these economies of scale, the operator may find it difficult to make the necessary investments.

Innovation Enablers

Just as there are barriers to innovation that must be overcome if an organization is to become more innovative, there may also be potential enablers of innovation. We define innovation enablers as stakeholders, or actors, who can enable or encourage an organization to become more innovative.

Any organization has both an internal environment, made up of internal stakeholders, and an external environment, within which one can find a number of external stakeholders with whom the organization is in regular contact and whose own fortune is in some way related to that of the organization. In our survey we asked respondents to rate how important they perceive a number of generic stakeholders to be in enabling innovation. The results can be found in exhibit 7.

Exhibit 7
Innovation Enablers



Internal Enablers

Respondents to our survey identified top management as the most important stakeholder in encouraging innovation within a postal operator. Not far behind comes the middle management, and interestingly non-management employees were not identified to be as important as management. There is probably a lot of truth to this observation. Of course many innovative ideas come from non-management

employees, but if the top management does not encourage creativity on behalf of the organization's employees there is little chance that new ideas will be adopted. In fact studies have shown clearly that senior management support for innovative ideas and new product development is crucial for the performance of the innovative process. Without this support there is little chance of innovative projects making it. Another important predictor of the success of product development projects is team composition, and this is where middle management often plays a very crucial role in bringing their experience and management know-how to projects.

External Enablers

Very interestingly respondents recognized the customer as the most important external enabler. As should be clear from our earlier discussion of innovation strategies, many innovations are the result of some level of market orientation, i.e. of the close relationship between the organization and its customers. Customers are often the ones who draw the attention of the organization to a need to improve existing products or to address specific customer needs that are not yet addressed. Out of the organizations we surveyed, 33% reported that they always gather the opinions of their clients, a further 50% that they regularly do so.

The government, international organizations and suppliers were deemed to be equally important in enabling innovation. We saw earlier that government regulations are important barriers to innovation, and in this sense it is logical that respondents singled out the government as also being a potential enabler. International organizations and associations scored surprisingly high as enablers, whereas the score of suppliers deserves some specific comments.

Suppliers were identified as a potential enabler of innovation and more importantly, "lack of innovative products and services from suppliers" was rated as the smallest barrier to innovation. In other words respondents do not see a lack of innovative solutions from suppliers. This indicates that the respondents feel quite strongly that the role of suppliers in innovation is to be enablers.

Conclusion

The goal of this study was to gain some insights into innovation in the postal sector, with a particular emphasis on strategies, barriers and enablers of innovation. What we found was that there is a large diversity in the strategies adopted by individual operators. Some are more defensive whilst others are more aggressive. Some are very market oriented, others less so. And finally, some are more innovation oriented, others less so.

The postal operators in our sample see that there are several areas with a large potential for innovation in the sector. The greatest area for innovation appears to be within service quality management. In addition to that, there appears to be a potential for launching new services to customers. The fact that customers are viewed as very important enablers of innovation confirms that the postal sector is increasingly focussing its attention on this important stakeholder and increasing its market orientation.

Staff policies are viewed as a key to future success. Not only are management employees (and the top management in particular) viewed as the most important enablers of innovation, but the difficulty in attracting innovative employees is also seen as one of the top barriers to innovation in the industry. Staff training was identified as one of the top areas for potential innovation in the sector.

Over-all our study paints a quite optimistic picture of the future of the sector. It would appear that many operators have already started to become more innovative and market oriented and also that they realize what they need to be doing better. The future will show if this will be enough to create and sustain new competitive advantages for incumbents in the sector.

About the Author

Kristian J. Sund holds a PhD in Management and M.Sc. in Economics from the School of Management and Economics (HEC), University of Lausanne. He also holds an M.A. in Society, Science and Technology from the Ecole Polytechnique Fédérale de Lausanne (EPFL). He is currently a Senior Research Associate at the College of Management of Technology of the EPFL and Managing Director of the Executive Master in Postal Leadership program. Kristian teaches strategy in a number of EMBA programs and his research currently focuses on organizations' perceptions of the environment and perceived environmental uncertainty as well as more generally organizations and strategic management. His research has mainly been applied to service industries like the hospitality, tourism and postal industries and has been published at international conferences and in journals.

About the Chair MIR

The Chair of Management of Network Industries (MIR) of the Ecole Polytechnique Fédérale de Lausanne studies the de- and re-regulation, as well as the governance and the management of the network industries, postal services, telecommunications, electricity, water distribution and sanitation, air transport and railways with a special focus on the role the ICTs play in both transforming and governing these industries. MIR has also extended its research activities into areas of innovation and risk in these industries, as their transformation makes them simultaneously more innovative and more vulnerable. MIR teaches Minor/Master courses on Corporate Governance and Industry Analysis, as well as PhD courses on de-/re-Regulation of Network Industries, and on Qualitative Research Methods. MIR edits a quarterly Newsletter with the section Economics of Infrastructures at TU Delft. In addition, MIR co-edits the Journal of Competition and Regulation in Network Industries (CRNI).