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Creativity-Innovation Cycle for Organisational Exploration and Exploitation: Lessons from Neowiz - a Korean Internet Company

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This article is about a Korean Internet company that has successfully changed its major service items three times during its 10-year history. The company has been well known for innovativeness since it became the first in the world to develop and sell completely virtual products. By introducing breakthrough innovations, as well as a stream of successive minor innovations, the company has become a leader in highly contested market segments. To explain the company's success, we develop a creativity-innovation cycle with four elements: generating creative ideas from employees, communicating these ideas, implementing them, and learning from the market response. We argue that tight, successive connections of the four elements allowed the company to take advantage of its existing core competencies and execute breakthrough innovations. We explain how the company made the cycle as complete as possible and discuss lessons other companies can learn from the case.

Introduction

The Korean economic crisis in 1997 and the subsequent IMF bailout had devastating effects on most of the large Korean companies that had relied heavily on debt financing for their growth. Interest rates for three-month certificates of deposit skyrocketed from 11.79% in late June 1997

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to 23.10% in late February 1998, while the exchange rate against the US dollar rose from 888.10 Korean won to 1572.10 during the same period.[1] To avoid becoming insolvent during this economic adversity, many large Korean companies conducted large-scale lay-offs as well as attempting to reduce their debts by selling their businesses to foreign companies. However, about half of the 30 largest *chaebols* — the Korean conglomerates — faltered during the four years after the crisis.[2]

The crisis led the Korean government to change its industrial policies. Most importantly, it sought to reduce the national economy's dependence on the *chaebols* and to foster technology-intensive start-up companies as a new growth engine for the national economy.[3] The government provided special tax treatments to start-up companies, opened KOSDAQ (Korea Securities Dealers Association Automated Quotations — the Korean equivalent of NASDAQ) and made formation of venture capital companies easier. It became much easier for people with new business ideas and technical capabilities to mobilize financial resources and form their own companies, and even hope to make a fortune after listing them on KOSDAQ. These new policies led to a sharp increase in new company formations, which absorbed many of those laid off by the large companies, thus helping to alleviate the unemployment problem caused by the economic crisis.

The Korean government especially tried to create an environment where companies dealing with information and communication technology (ICT) could flourish by investing heavily in the development of ICT infrastructures.[4] Thanks to this government measure, Korea became the world leader in both quantity and quality of Internet use, and thus a test bed for new ICT initiatives.[5] Policies favouring ICT businesses, coupled with the 'dot.com' fever around the world, triggered the formation of many dot.coms in Korea, and the continued success of many start-ups transformed the Korean economy itself. Quantitatively, the transformation was largely from the traditional brick-and-mortar economy to a hybrid of traditional and electronic commerce economies, and from *chaebol*-dominant economy to a mix of *chaebols* and a large number of innovative high-tech companies. Qualitatively, the success of innovation-driven start-ups stimulated *chaebols* to restructure their traditional bureaucratic organisations and adopt innovation-friendly management practices.

The Korean economy transformed itself from a chaebol-*dominated brick-and-mortar economy to a hybrid traditional/electronic commerce economy, mixing* chaebols with *high-tech innovators.*

While the new business opportunities fostered by government policies brought forth numerous dot.coms attempting to make money from their on-line services and contents, only a few were successful in generating profits from paid-for on-line services. One such was Neowiz, which had become the eighth largest Internet site in the world in terms of number of visitors by March 2003.[6] It was the first company in the world to develop and sell virtual items called 'avatars,' two-dimensional animated characters with which users could express their identity in cyberspace, for instance, by dressing them up in virtual clothes bought in virtual malls.[7] The Wall Street Journal and Far Eastern Economic Review featured the success of Neowiz's avatar service, and the company soon became the target of imitation by several US firms.[8]

The market segments occupied by Neowiz were characterized by low entry barriers and constantly changing demands for new services. To grow continuously under such conditions, the company introduced one breakthrough innovation after another, so that new services could generate enough revenues to supplement revenue decreases from services declining in popularity. Breakthrough innovations alone, however, could not guarantee the survival of the company - given the low entry barriers, such innovations were easy to imitate. However, the implementation of