

# CIO – Corporate innovation online

## Innovation management best practices

### Special report on SMEs.

#### **Respondents to our on-line survey know full well what makes for good innovation management practices but have most concerns with regard to incentives, rewards, and a culture which may not encourage new ideas and their commercial realization**

Survey results<sup>1</sup> for companies with 100 or fewer employees have been analyzed to determine the extent to which SMEs differ in their views with respect to 25 Factors – management practices - which impact company innovativeness.

Results from our overall responses indicate that while there is a strong correlation between larger-sized highly-innovative companies (such as 3M, John Deere, Starbucks and P&G which we have researched) and SMEs, the SMEs do not have as great an expectation in terms of their ‘Ideal’ environment for encouraging innovation as do highly-innovative, idea-intensive companies. To provide further perspective, we have provided an additional benchmark for purposes of comparison. This measure is called, for lack of a better term, the ‘Best of Breed’ or ‘Best of the Best’; BofB for short.

By parsing a company’s culture for innovativeness, we provide benchmarks, in terms of 25 Factors, to portray an otherwise vague concept of an environment for innovation. Booz & Co’s report<sup>2</sup> states that culture is a key component of strategy and a part of the problem faced by most corporations including SMEs.

The elements<sup>3</sup> that make up a truly innovative company are many:

- a focused innovation strategy,
- a winning overall business strategy,
- deep customer insight, great talent, and
- the right set of capabilities to achieve successful execution.

More important than any of the individual elements, however, is the role played by corporate culture — the organization’s self-sustaining patterns of behaving, feeling, thinking, and believing

### Quick Summary

SMEs have similar rankings for the importance of most management practices which impact innovativeness; not up to the standard of our Best of Breed, but very close.

Indications are that there are some areas of dissatisfaction; i.e. not up to expectation:

- rewards for innovators – Factor #14
- an overall sense that funds would be made available if good investment projects are identified – Factor #19
- level of spending on research and development – Factor #23,

all of which come under the theme of ‘idea generation and realization’.

<sup>1</sup> For survey results go to; <http://www.corporateinnovationonline.com>

<sup>2</sup> BARRY JARUZELSKI, JOHN LOEHR, AND RICHARD HOLMAN, Booz & Company’s annual study. Global 1000 Study. Winter 2011

<sup>3</sup> For a complete set of characteristics, download from the web site, ‘A framework for the management of innovation’

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— in tying them all together. Yet according to the results of the Global Innovation 1000 study, only about half of all companies say their corporate culture robustly supports their innovation strategy. Moreover, about the same proportion say their innovation strategy is inadequately aligned with their overall corporate strategy<sup>4</sup>.

Clearly there is a lot of analysis to properly understand the culture or the environment in any corporation, let alone relate this complexity to business strategy. Many and diverse factors come into play. Making the situation even more complex is the fact that culture can change over time; for the better or for the worse. Getting a handle on ‘culture’ is difficult. Asking the right questions is a start.

Our analysis, based on 25 Factors, presents the results under four main themes;

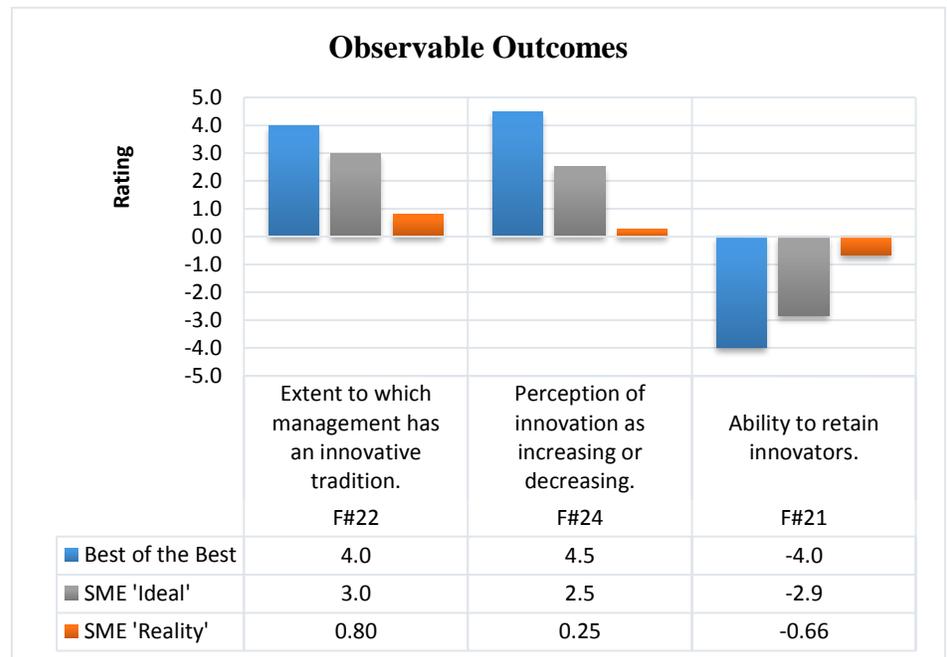
1. Observable innovation outcomes – when to realize there is a problem!
2. Leadership – what senior management should be doing!
3. Organization and management of day-to-day affairs – small things make a difference!
4. Idea generation and realization – without this being effective there may be no hope!

Much of the analysis is based on a survey instrument available on the web site which, while primarily set up for major corporations, has attracted a large number of responses from SMEs – thus this special report on the results for smaller organizations, i.e. having fewer than 100 employees.

#### Observable outcomes

Observable outcomes are a measure of the sense of whether the company already has an innovative tradition and whether the current trend is positive or negative. Companies generally know, as well, whether innovative people are leaving their employ. These Factors are therefore observable and measurable.

In this case, those respondents who are employed by SMEs – as defined here - and responding to the survey, show an ‘Ideal’ which is significant but at the same time not as high as our rating for highly-innovative companies – the ‘Best of the Best’.



<sup>4</sup> ibid

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Clearly there is less expectation overall from SME respondents. Probably not unexpected as the ‘bar’ for the BofB is set very high. ‘3M’ is our choice for the company, of those we have researched, which has in place the best set of innovation management practices.

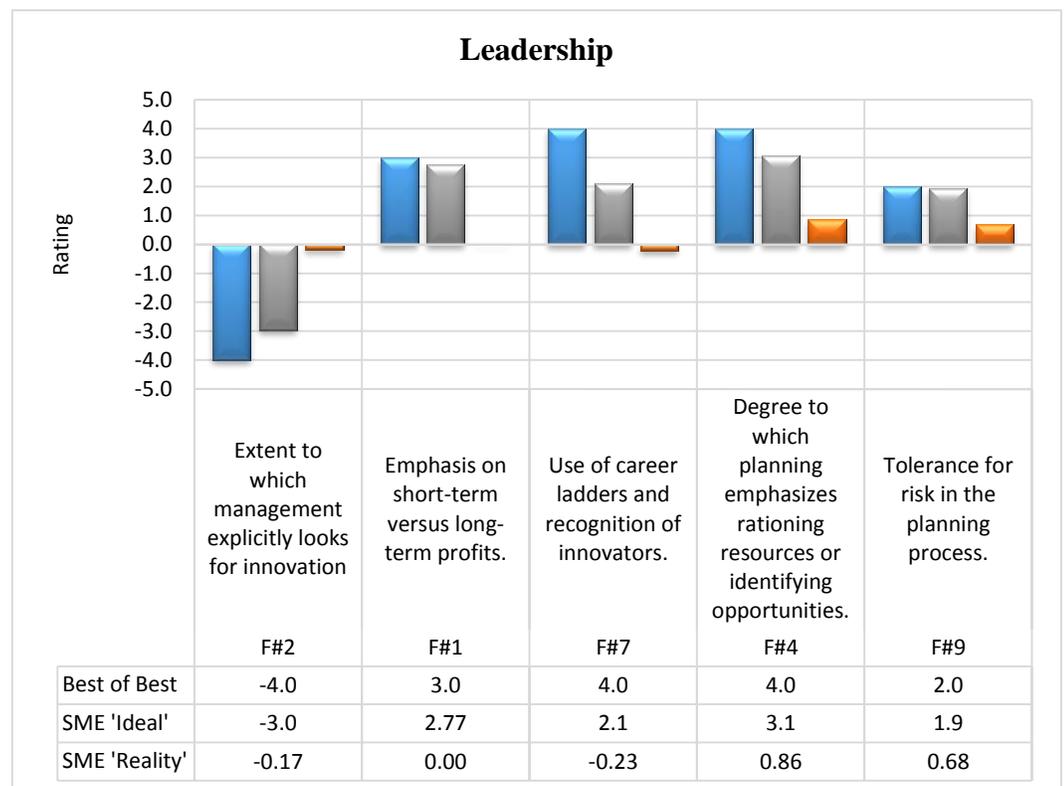
‘Reality’ for SMEs is not only less than their relatively modest expectations but the result is even further exacerbated if the ‘Best of the Best’ benchmark is applied. Either way, there is room for improvement in these outcomes for SMEs.

For SMEs, at least for those who have registered their data in the on-line survey, innovation is not working as well as they believe it should. There is a perception that innovation improvement is flat, and there is, and perhaps this is the most important indicator, a concern that innovators are leaving the company.

### Leadership.

Leadership, whether by the CEO/COO or by the Board of directors is benchmarked by five Factors. SMEs, generally rank their ‘Ideal’ close to that of highly-innovative companies. There is, however, a degree of dissatisfaction with the overall role played by leadership – as measured by the difference (we call this the ‘Delta’) between their ‘Ideal’ and their ‘Reality’ –when it comes to management practices impacting innovation.

There is a strong indication that management should be doing a better job in articulating its desire for innovation. It would appear that the need for innovation is not well articulated at senior levels, there is too much emphasis on short-term profits, and there is little recognition of innovators in terms of career ladder opportunities. Overall, the expectation for SMEs is not much different than for highly-innovative companies.



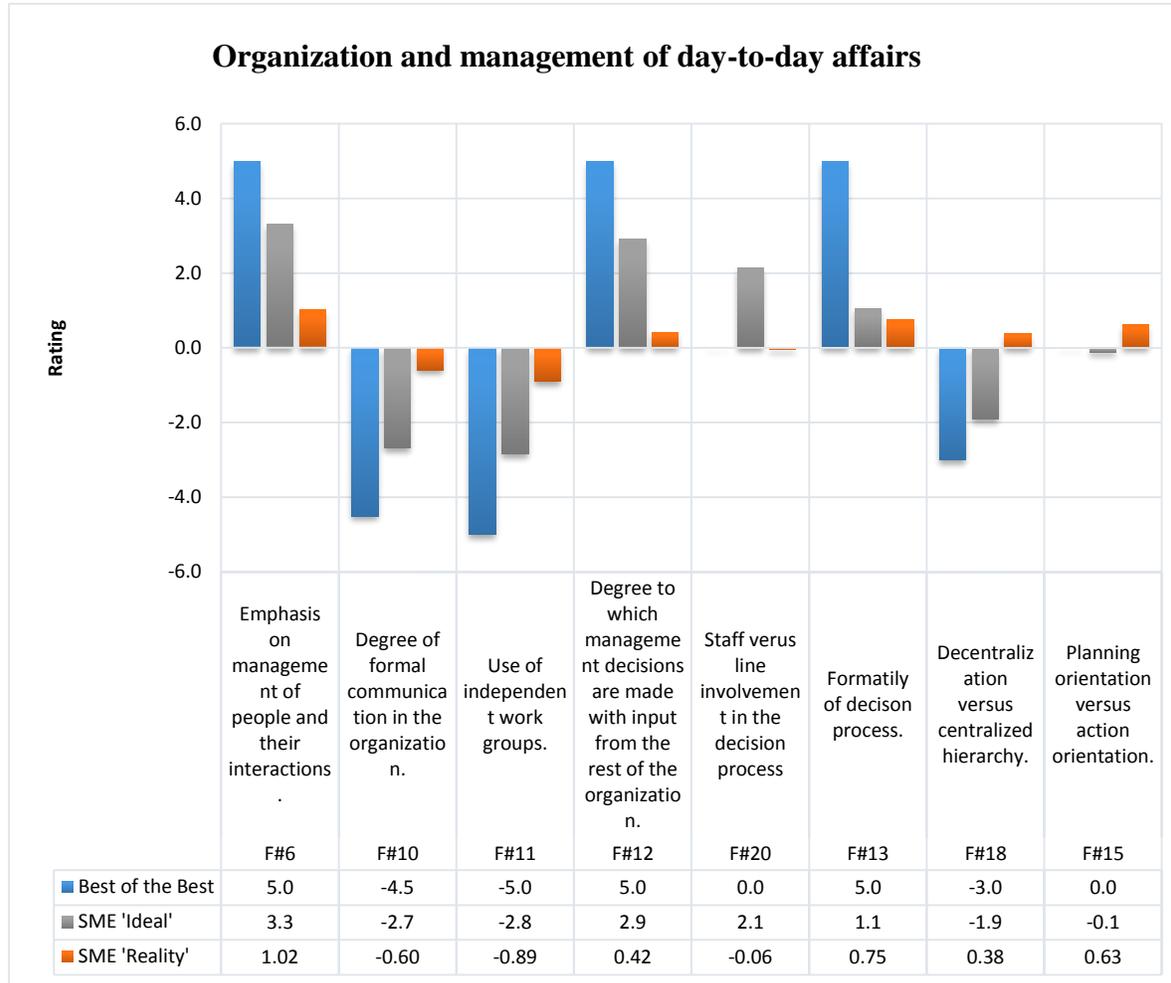
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### Organization and management of day-to-day affairs

There are eight Factors which relate to the organization and management of day-to-day affairs and which impact innovativeness. Overall, there appears to be small differences between the SMEs ‘Ideal’ and their ‘Reality’; an indication of a degree of satisfaction with management practices at least as denoted by this analysis. When the rating for the ‘Best of the Best’ is applied, however, there are gaps to be addressed in most of these Factors.

On-line survey results for F#15 have been ambivalent so the Best of the Best is ‘0’. The results seem consistent; Factors #20 and #15 are not only irrelevant for most respondents but provide no differentiation for purposes of this analysis. On the other hand, respondents were quite clear that issues relating to the management of people, the degree of formality in communications, use of



independent groups, a sense that people can contribute to decision making, and the formality of the decision process are important attributes to strive for when trying to improve innovation.

### Idea generation and realization

Six Factors have a bearing on idea generation and realization and impact innovativeness.

The successful management of ideas within any corporation is based on a sense of trust, openness, collaboration, and an individual and group acceptance of failure relative to risk. Almost all highly-innovative companies demonstrate a high tolerance for failure. Some even

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have targets for failure and if the rate is not achieved, are concerned that the corporation is not doing enough, i.e. not taking chances where it should in order to progress.

The lack of reward mechanisms (F# 14) is often quoted as a negative incentive for individuals or groups to innovate as this result – see chart - the largest difference, would also indicate.

For SMEs, this is also major concerns with the availability of resources, and spending on R&D.

Results for tolerance of mavericks, tolerance for failure, tolerance of variance from the corporate norm, while showing a consistency in importance, as demonstrated by their 'Ideal', fall short in 'Reality'.

### Conclusion

Survey results were agglomerated to provide a portrayal of SMEs respondents view for each of the 25 Factors.

What if the results applied to your own corporation? Would the results be consistent across business units or throughout all levels in the organization? Is management's message regarding the importance of innovation getting through levels and silos within the organization? Where and what are the problems with the existing environment? Where does one start to improve the environment if, in fact, the environment needs to be improved. These are the questions which can be addressed for individual corporations in essentially the same manner as has been done here for an 'agglomerated SME'.

