

## Special Report

### Small and Medium Enterprises (SMEs)

### Portraying the Environment for Innovativeness

Corporate  
Innovation  
Online  
*Ideas, Self-help and News*

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 which impact company innovativeness.

Results indicate that while there is a strong correlation between larger-sized highly-innovative companies (such as 3M, John Deere, and P&G which we have profiled) and SMEs, the SMEs do not have as great an expectation in terms of their 'Ideal' environment for encouraging innovation as do highly-innovative companies. To provide further perspective, we have added in our measure taken from an analysis of highly-innovative companies. This measure is called, for lack of a better term, the 'Best of the Best'.

By parsing a company's environment, or culture, for innovativeness, we are putting in a dimension, in terms of 25 Factors, to portray an otherwise vague concept of an environment for innovation. Booz & Co's recent report states that culture is a key component of strategy and a part of the problem faced by most corporations including SMEs.

*The elements 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 — in tying them all together. Yet according to the results of this year's 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>2</sup>*

Clearly there is a lot to do 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 and making the situation even more complex is the fact that the 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, while based on 25 Factors, presents the results under four main themes;

1. Observable innovation outcomes
2. Leadership
3. Day-to-day management and organization
4. Idea management

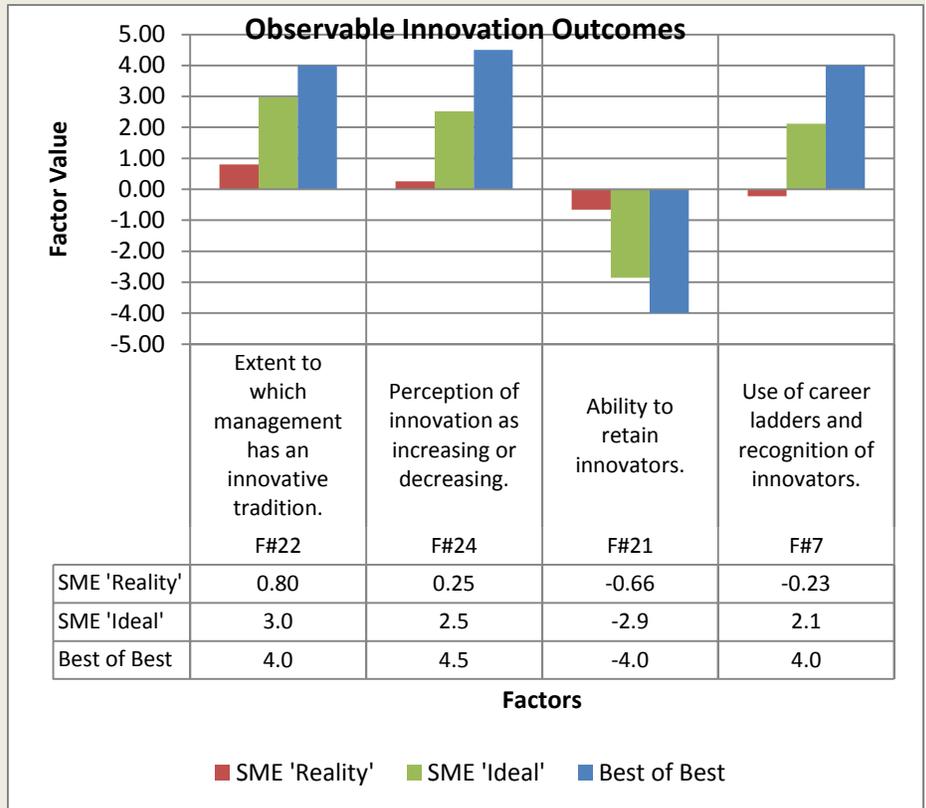
Much of the analysis is based on a survey instrument available on the web site which, while primarily set up for major corporations, has attracted a large number of responses from SMEs – thus this special report on the results for smaller organizations, i.e. having fewer than 100 employees.

<sup>1</sup> See Survey at; <http://www.corporateinnovationonline.com>

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

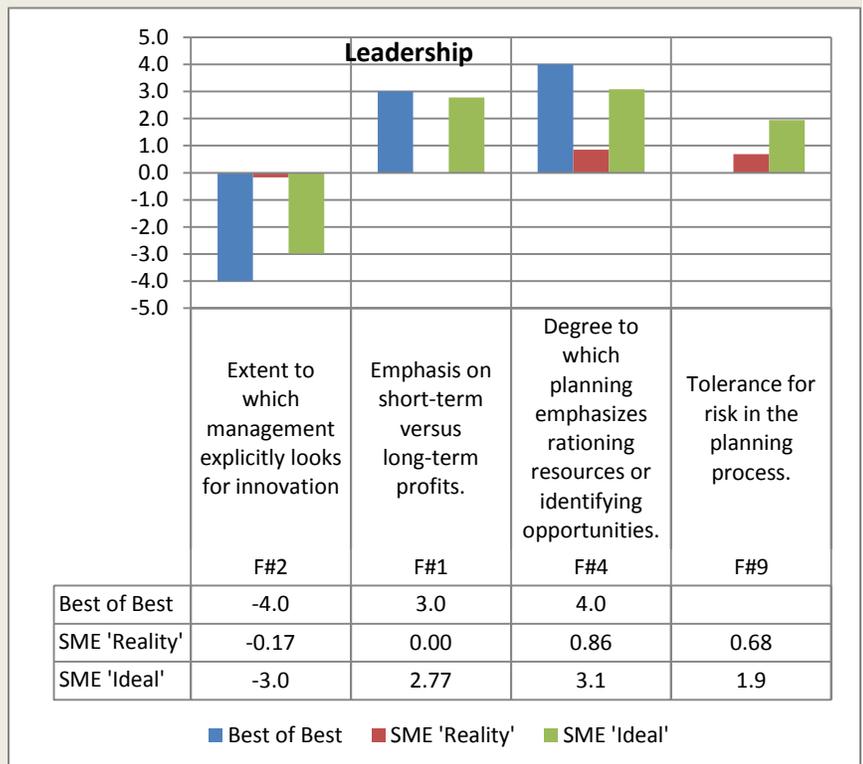
**1. Observable innovation outcomes** are a measure of the sense of whether the company already has an innovative tradition and whether the current perception is positive or negative. Companies generally know, as well, whether innovative people are leaving their employ. In addition it is relatively easy to understand whether the company has, or has not, special programs in place for recognition of innovators. These Factors are therefore observable. In this case, SMEs 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. Clearly there is less expectation overall

from SME respondents. 'Reality' for SMEs is not only less than their more modest expectations but is even further exacerbated if the 'Best of the Best' measure is applied. For this sample, there is room for improvement in these outcomes.



**2. Leadership**, whether by the CEO/COO or by the Board of directors is measured by four Factors. SMEs, generally rank their 'Ideal' close to that of highly-innovative companies but have a degree of dissatisfaction – as measured by the difference between their 'Ideal' and their 'Reality' – with the overall role played by leadership when it comes to innovativeness.

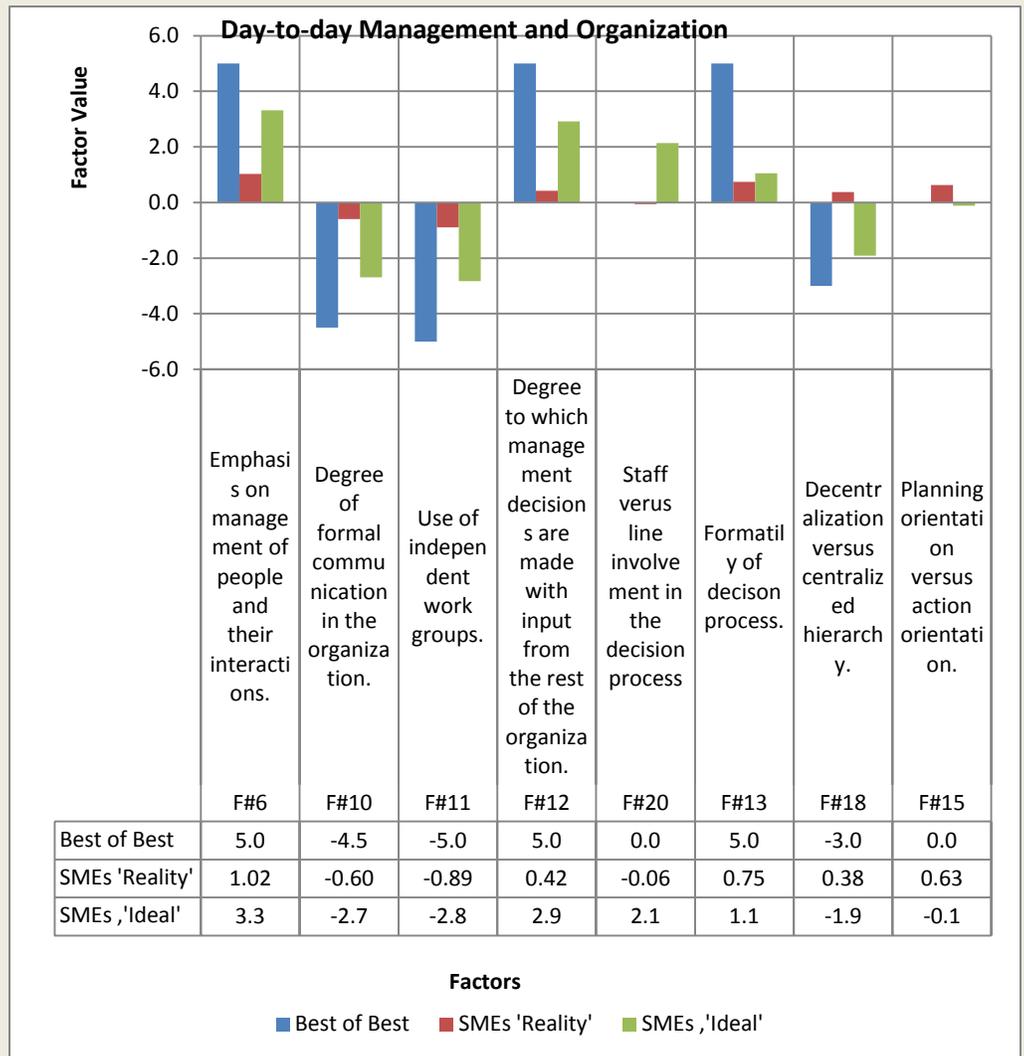
There is a strong indication that management should be doing a better job in articulating its desire for innovation. Survey results for Factor #9, for the Best of the Best, have proven ambivalent to this Factor – thus the '0' result.



3. There are eight Factors which relate to the **day-to-day – ongoing - management** - of the business 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. Survey results for F#15 have been ambivalent so the Best of the Best is ‘0’.

F#11, F#13, and F#15, with their relatively smaller difference between ‘Ideal’ and ‘Reality’ are of lesser concern to SMEs.



4. Six Factors have a bearing on **idea management** 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 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 would also indicate. For SMEs, there is not much difference between “ideal’ and ‘Reality’ when it comes to R&D spending, but when the ‘Best of the Best’ rating is applied the difference becomes significant.

F#14 and F#19 are, in this survey, red-flagged as the difference between ‘Ideal’ and ‘Reality’ is higher than for other Factors. F#8 and F#3 rank much lower and are, by implication, of lesser concern to SMEs.

## Conclusion

Survey results were agglomerated to provide a portrayal of SMEs respondents view on 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 culture – 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’.

January 5, 2012

