

## Unlocking creativity in SMEs!

**Probing three dimensions of SME innovativeness; stage of development, depth, and breadth**

**Benchmarking innovativeness leads to focused solutions!**

The challenge for SMEs is how to maintain the entrepreneurial and innovation spirit which will propel the SME into a sustained growth stage. Beyond survival mode, the issue for the SME is to keep growing, be profitable and to continue to innovate.

We offer an approach based on;

- Understanding the current state of innovativeness in the company
- Recognizing that it is important to take into account the views of employees and stakeholders regarding innovation
- Identifying barriers which exist or could constrict innovativeness

More broadly, the notion is to gain a better understanding of the role of innovation in the SME and come up with solutions which address issues and respond to a defined need.

### Contents

- Innovation's stages
- Measurements of innovativeness
- The on-line survey
- Investing in the full spectrum of innovation

## Innovation's stages

We approach the subject of innovativeness by first looking at the evolution of innovation in an SME. Where do all the elements that make up innovativeness fit? Much depends on the stage of development of the SME.

For example, while **fundamental research, applied science and development** are exceedingly important for the medium and long-term future of most companies, it is less important for the struggling-to-survive SME. Keeping in touch with fundamental developments in technology is, however, important and can be accomplished by maintaining close and meaningful contacts with research institutions, universities and bright individuals. Early collaboration can build relationships which may prove useful at a later stage of development for an SME.

Innovation management practices designed to encourage innovation and to mark its importance are thus dependent upon the stage of development of the SME.

Having a strong management team is a first priority but some sort of orderly process for managing innovation efforts soon becomes essential to ensure that activities which are productive are fast-tracked are those which are non-productive are eliminated or minimized. Thus having a system in place which can capture and manage the creative and implementation process (**idea generation and realization**) is an important contributor to accomplishing tasks in the earlier beginnings of a SME. An early focus on the importance of innovation can also plant the seeds that the organization has a 'culture of innovation'.

<b>Innovation Stages</b>					
	<b>Industry Maturity</b>				
<b>Innovation management</b>	<b>Start Up</b>	<b>Rapid Growth</b>	<b>Growth</b>	<b>Mature</b>	<b>Aging</b>
	← <b>SME Focus</b> →				
<b>Management's overall attention</b>	Establishing credibility Entrepreneurship Survival	Developing a strong competitive position Market share	Maintaining a strong competitive position	Maintenance of profit and market position	Exiting the business Ongoing survival
<b>Innovation effort</b>	Specific new product development tasks Setting in place the seeds of a culture for innovation	Business model establishment New product quality and support Customer feedback for success		Product enhancements and modifications Search for innovation	Opportunistic only
<b>Innovation management systems</b>	Non existent Reward is skewed to share value appreciation	Simple idea management system Rewards migrate to other forms of recognition	Full-fledged idea management system Sophisticated reward system for full range of innovation spectrum		System maintenance
<b>Management structure</b>	Loose and informal, lack of definition of responsibilities Individual performance	Some organizational definition required Individual and group performance	Group performance Decentralized Well defined responsibilities and accountabilities		
<b>Management's innovation style</b>	Open and ad hoc	Bordering on participative	Open and non-hierarchical	Formal, delegation and control	
<b>Collaborative initiatives</b>	Virtually none outside the enterprise	Mainly Internal effort	Seeking outside collaborators; research institutions etc. for new ideas	Managing outside collaboration	
<b>Likely casualty during stage</b>	Cost reduction and continuous improvement, cost containment		Risk profile shifts from risk taking to more conservative	New products	No new products

Highly-innovative companies have a breadth and depth to their innovation practices which starts early on in their history and is, we have found, much influenced by the founder's attitudes and values. Our research into early developments at GE, 3M, John Deere and other noted companies bear evidence that innovativeness starts early on. Typically, however, a start-up struggles with just one aspect of innovation; a new product or a new business model. Seldom is a start-up

concerned with continuous improvement. Our research also indicates that companies which undergo rapid expansion invariably forget about continuous improvement. Starbucks, one of the companies profiled, is a case in point. Management's attention is, as one might expect, focused on growth. Thus different aspects of innovation come into play at various stages of a company's growth.

## Measurements of innovativeness

A fair question is whether the SME even has a problem with its innovativeness. Many corporations use as a measure the percentage of new products which have been introduced over the last 5 years and seek to keep this figure at 25% or better; see our profile on P&G<sup>1</sup>. The hypothesis is that the product line is continually being refreshed, new business platforms established (See DSM), and that change will bring about growth. Definitely the percentage of new products is an indication of product-inspired innovation but is, in reality, only on 3 part of the answer to the question; is my corporate innovativeness in place and working?

We offer several quick and easy-to-use measurements to answer this question.

Means of measurement	Explanation
<b>On-line survey results</b>	If the score (the 'Delta') is over 60 there is probably a problem(s) to address.
<b>Innovators are leaving the company</b>	Factor #21 – a huge gap between the 'Ideal' and 'Reality' indicates an issue.
<b>Company has an innovative tradition</b>	Factor #22 – a tradition established and still exists?
<b>A sense that innovation is increasing or decreasing</b>	Factor #24 – probing in which direction innovation is trending?
<b>Innovation Assessment Tool [IAT]</b> See web site; <a href="http://www.corporateinnovationonline.com">http://www.corporateinnovationonline.com</a>	Examines the corporation's innovation culture, the 'Spectrum of Innovation' and the presence of Innovation-oriented structures to enable innovation.

The on-line survey provides insight into the opinions of employees and stakeholders. Perception may be reality. Simply analyzing whether valued employees, those regarded as innovators or change agents, are leaving the SME is a key measure. Similarly, ask the question; is it easy to hire the skilled staff, those with the right attitude, those who will contribute to innovation?

Stakeholders, customers, clients, investors, and employees will have a view as to the innovativeness of the SME. They will also have a sense of whether the SME is ahead, the same as, or behind in its reputation for innovation. Again, perception counts!

The IAT is a means of mapping the existence of innovation enabling mechanisms in the corporation. The extent to which these 'enabling mechanisms' are present can provide insight into a company's innovativeness.

<sup>1</sup> <http://www.corporateinnovationonline.com>. Corporate profiles.

The measurements noted above attempt to answer critical questions about innovativeness.

- Do all or most employees appreciate the importance of innovation to the future of the company?
- Is management's message regarding innovation getting through?
- Is what we do as managers, encouraging innovation thinking?
- What is the employee attitude to innovation?
- Are innovative people leaving the firm? Why?
- Is the starting point that the company already has an innovative tradition or is the view that this has yet to come?
- How do we identify our innovativeness? How broad and how deep does our innovativeness go?

## The on-line survey

The on-line survey, one of the tools used to measure innovativeness, addresses employees' opinions regarding 25 Factors which can be grouped into three themes. Respondents are asked to provide their opinion on what would be an 'Ideal' situation and then asked for their opinion on their 'Reality'. The answers to three of the 25 Factors, #21, #22, and #24 – see above – can indicate the presence of a problem to be addressed.



### Idea generation and realization Factors

- Tolerance for mavericks – F#3
- Tolerance for failure – F#5
- Tolerance for variation from a corporate norm – F#8
- Mechanisms in place to reward innovators – F#14
- Resources available for new ventures – F#19
- R&D budget levels above the competition – F#23

### Leadership Factors

- Emphasis on short versus longer-term profits – F#1
- Extent to which management explicitly looks for innovation – F#2
- Planning emphasizes opportunities and not just cost reduction – F#4
- Use of career ladders and recognition of innovators – F#7
- Tolerance for risk in the planning process – F#9

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

- Emphasis on management of people and their interactions – F#6
- Degree of formal communications in the organization – F#10
- Use of independent work groups – F#11
- Management decisions with input from a broad cross section of employees – F#12
- Formality of the decision process – F#13
- Planning versus action orientation – F#15
- Decentralization versus centralized hierarchy – F#18
- Staff versus line involvement in the decision process – F#20

The results of the on-line survey provide insight into the issues which need to be addressed in order to improve company innovativeness.

## Investing in the full spectrum of Innovation

Innovation takes many forms (see chart) and while creativity is important, it is not the whole answer. For example;

- Investment in new and emerging technologies drives new product development and requires creativity.
- Having transparent reward systems along with systems to capture new ideas for improvement to processes (continuous improvement) can contribute significantly to productivity improvement. Creativity, while a factor, is less important than capturing ideas from whatever source.
- Investing in 'common technologies' with the focus of keeping up to date with product line enhancements and modifications draws more on understanding customer's current and developing needs than on creativity per se.
- Seeking to differentiate a product or service from the competition requires investment in new technologies and the creative minds to bring diverse elements together.

Creativity is the key in two of these four areas; new products and the introduction of new business models or platforms.

Investment in this context is not simply funding, but also involves staff commitment, time and energy, and in general taxing the scarce resources of a growing SME. SMEs can make a mistake by spreading their scarce resources too far!

Is there an appropriate mix of these investment activities or is the emphasis on one aspect while neglecting others.

Creativity is the least understood element of the spectrum of innovation and yet is absolutely important at some level in all stages. Creativity can arise in many forms; customer input, smart employees, connections with research institutions, and group brainstorming sessions. What is important is to know what is happening within the corporation and whether all potential levers to cause productivity improvement and growth are in place.

