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Innovation management best practices

Special report on SMEs.

Respondents to CIO's on-line survey know full well what makes for good innovation management practices but have most concerns about incentives, rewards, and a culture which may not encourage new ideas and their commercial realization.

Survey results[1] for companies with 100 or fewer employees, i.e. different from larger corporate entities, 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 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.

For further perspective, we provide 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, CIO provides benchmarks, in terms of 25 Factors, to portray an otherwise vague concept of an environment for innovation. Booz & Co's report[2] 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

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 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'.

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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.

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.

CIO's analysis, based on 25 Factors, presents the results under four main themes.

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

Much of the analysis is based on a survey instrument available (no longer available) on the web site which, while primarily set up for major corporations, has attracted many responses from SMEs – thus this special report on the results for smaller organizations, i.e. having fewer than 100 employees.

Observable innovation 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 - show an 'Ideal' which is significant but at the

Observable Innovation Outcomes

	Extent to which management has an innovative tradition. F#22	Perception of innovation as increasing or decreasing. F#24	Ability to retain innovators. F#21
Best of the Best	4.0	4.5	-4.0
SME 'Ideal'	3.0	2.5	-2.9
SME 'Reality'	0.80	0.25	-0.66

same time not as high as our rating for highly-innovative companies – the 'Best of the Best'.
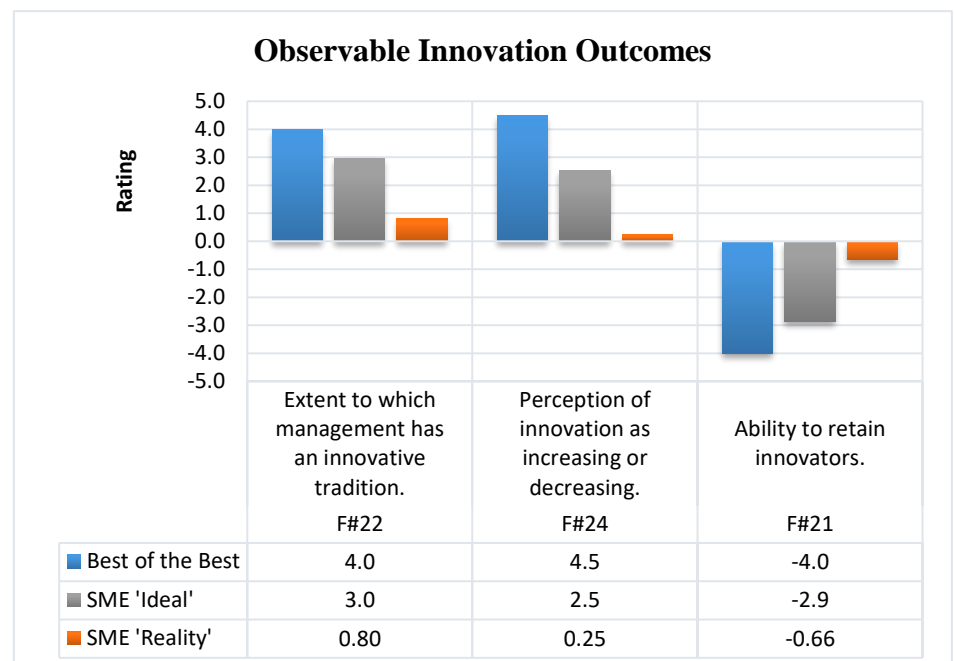
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Clearly there is less expectation overall from SME respondents. Probably not unexpected as the 'bar' for the BofB is set very high. '3M' is our choice for the company, of those we have researched, which has in place the best set of innovation management practices.
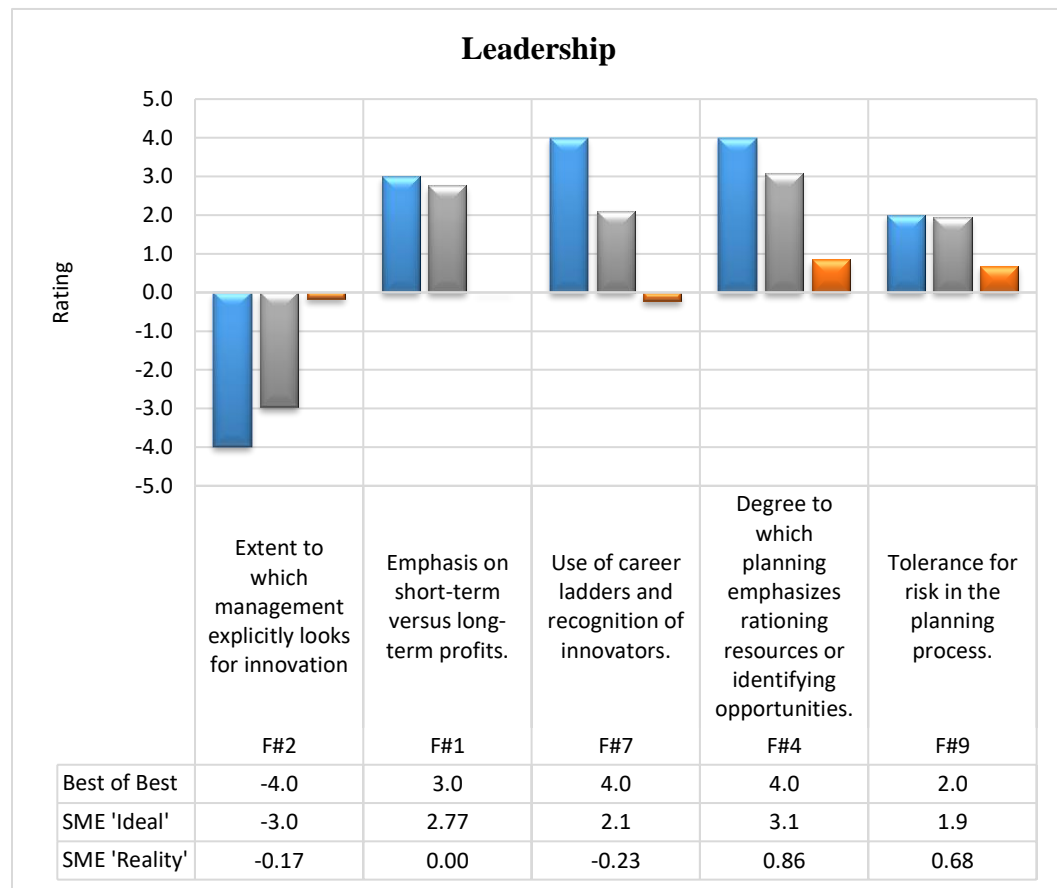
'Reality' for SMEs is not only less than their relatively modest expectations but the result is even further exacerbated if the 'Best of the Best' benchmark is applied. Either way, there is room for improvement in these outcomes for SMEs.

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.

Leadership

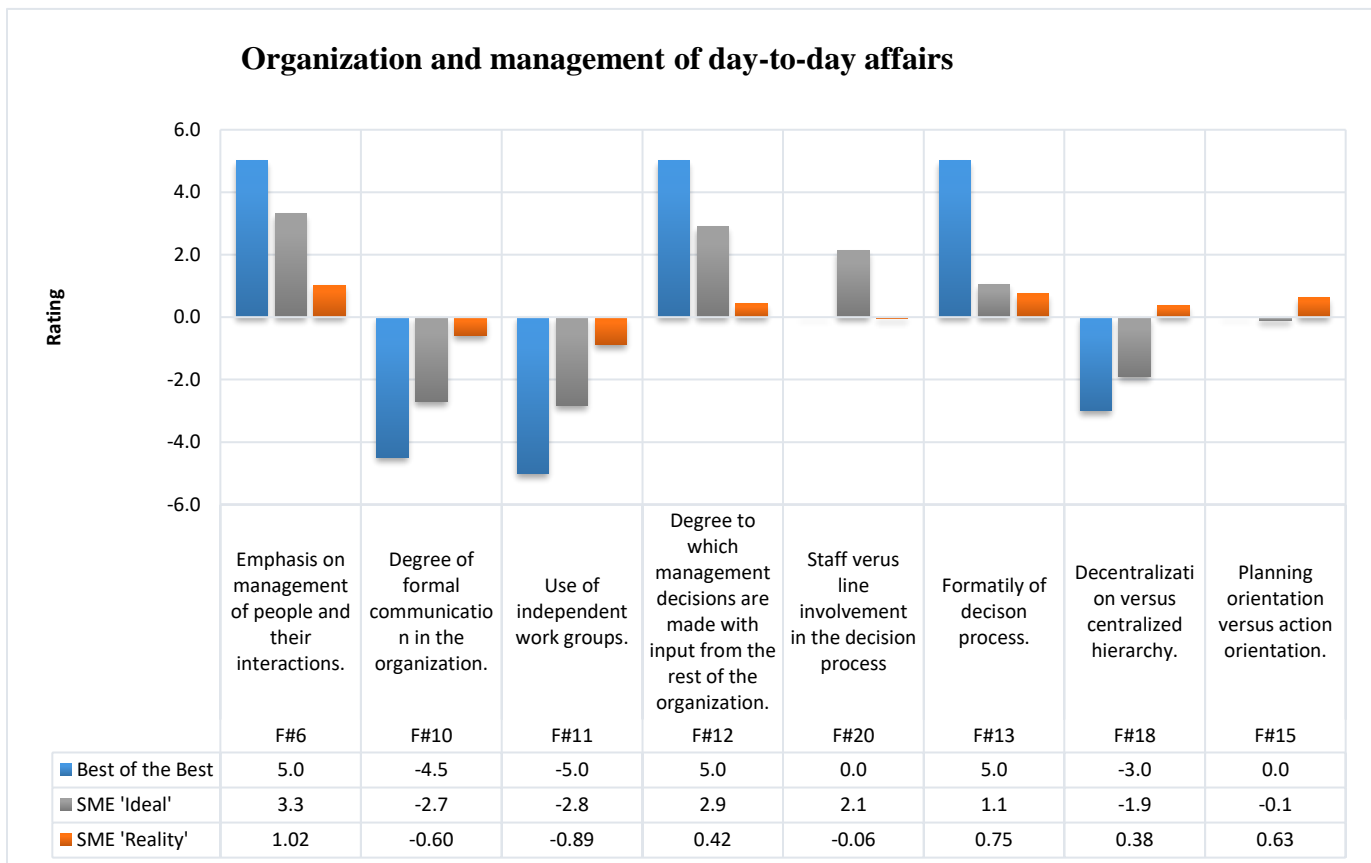|	Extent to which management explicitly looks for innovation	Emphasis on short-term versus long-term profits.	Use of career ladders and recognition of innovators.	Degree to which planning emphasizes rationing resources or identifying opportunities.	Tolerance for risk in the planning process.
	F#2	F#1	F#7	F#4	F#9
Best of Best	-4.0	3.0	4.0	4.0	2.0
SME 'Ideal'	-3.0	2.77	2.1	3.1	1.9
SME 'Reality'	-0.17	0.00	-0.23	0.86	0.68

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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 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. 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

Organization and management of day-to-day affairs

	Emphasis on management of people and their interactions.	Degree of formal communication in the organization.	Use of independent work groups.	Degree to which management decisions are made with input from the rest of the organization.	Staff verus line involvement in the decision process	Formatily of decison process.	Decentralization versus centralized hierarchy.	Planning orientation versus action orientation.
	F#6	F#10	F#11	F#12	F#20	F#13	F#18	F#15
Best of the Best	5.0	-4.5	-5.0	5.0	0.0	5.0	-3.0	0.0
SME 'Ideal'	3.3	-2.7	-2.8	2.9	2.1	1.1	-1.9	-0.1
SME 'Reality'	1.02	-0.60	-0.89	0.42	-0.06	0.75	0.38	0.63

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.

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Idea generation and realization

Six Factors have a bearing on idea generation and realization.

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 – see chart - the largest difference, would also indicate.

For SMEs, there are 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'.

Idea generation and realization

	Tolerance of mavericks.	Tolerance for failure.	Tolerance of variance from the corporate norm.	Availability of reward mechanisms for innovation.	Availability of resources (budget, time, etc.,) for new ventures.	R&D budget levels versus the competition.
	F#3	F#5	F#8	F#14	F#19	F#23
Best of Best	-4.0	-4.0	-2.5	-4.0	4.0	4.0
SMEs 'Ideal'	-2.6	-2.6	-2.5	-3.1	2.8	1.4
SMEs 'Reality'	-0.71	0.06	-0.37	1.17	-0.29	-0.43

Factors

■ Best of Best ■ SMEs 'Ideal' ■ SMEs 'Reality'

Conclusion

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.

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