

Innovation and How SMEs Go About It

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Summary

SMEs make a considerable contribution to the development and diffusion of innovation as well as accounting for the bulk of economic activity and employment in Ireland. Successfully managing innovation is an important business objective for SMEs, and yet, relatively little is known about how innovation-active firms go about it and, specifically, whether firms use formal processes to manage their NPD activities. Whether or not they use formal processes is important as the use of such processes has been shown to boost the success of innovation in firms generally.

Although this finding is not universal. Indeed, opinion is so divided on this issue that a body of literature has developed called the 'help or hinder' stream. The 'help' side argue that having a dedicated innovation process has been found to be the defining factor separating successful firms from the others. Without such a process, they argue, pet projects monopolise scarce resources and the effective and necessary integration of people, processes and plans rarely happens. The counter argument is, predictably, that too much process stifles innovation and that often when process is applied too rigorously it becomes hostile to unorthodox or unconventional ideas which may be precisely the types of ideas that might unlock the most growth in a business.

Somewhat surprisingly, this study of innovation-active Irish SMEs finds that three quarters of firms report that they do not operate any formal innovation process, yet this is not associated with poorer performance in terms of revenues from new products and services;

and there are few differences between firms with formal innovation processes and firms with informal innovation process across each stage of the Innovation Value Chain. Having a more formal innovation process is, however, associated with success at bringing novel products to market. This study contributes to our understanding of the management of innovation in SMEs and to the emerging literature on SMEs that has emphasised both the prevalence and the effectiveness of informal management processes.

Research Study Overview

It's clear that innovation drives economic growth. Innovation is fundamental to the survival and growth of firms and ultimately to the health of national economies. SME's play two vital roles in fueling innovation - they create ideas and they help diffuse them. SME's are a critical part of the innovation ecosystem, even if only because they are so numerous and account for the bulk of economic activity.

Despite its importance, what little we know on this topic comes from the Community Innovation Survey, a biannual quant study carried out across the EU member states. From this we see worrying trends such as 40% not being innovation active at all. Although it's worth remembering that in a recession - so often, survival is the top priority and this has the effect of eclipsing innovation. This survey also shows that Ireland's high position within EU nations in terms of innovation (EU Innovation Scorecard) is partially derived from foreign firms operating here and that our own, indigenous performance would not justify such a high ranking. Some academic studies have been undertaken and they consistently underline the link between innovation and profitability.

We designed a survey we called the Irish Innovation Index and it was derived from a number of sources. Firstly, though it divided innovation projects into the three phases acknowledged to be in the innovation value chain. Next it probed best practices as discovered by peer reviewed experts and articles. We fielded the survey online during Ireland's Innovation Week and it received great publicity in the national newspapers as well as within innovation journals.

Findings

There were 173 participants in the study (all declaring their firm to be innovation active - i.e. having launched a new product or service in the prior three years) and we discovered that only 23% have a formal innovation process to manage innovation initiatives. However, this did not seem to hinder their performance as they were on average deriving 35% of their sales from new revenue streams introduced within the prior three years. Overall the data

suggests few differences in the performance of firms whether or not they have a dedicated process to manage innovation initiatives. On theorising on why might the absence of formal innovation processes not matter to the innovation performance of SMEs, there is research suggesting that small firms thrive on flexibility, the absence of bureaucracy and they work possibly more like an organic creative organisation (perhaps like an orchestra) rather than a command and control driven organisation. The second issue is that for these formal processes to demonstrate value a longer term planning horizon is implicit and in many SMEs such a longitudinal view is impractical.

Thirdly, firms with high growth rates are also characterised by innovation and this has been shown in Ireland by Forfás and in the UK by NESTA. Our survey may have attracted an unusually high proportion of these high-growth-firms.

Finally, small firms, by virtue of their small scale, often pursue a very limited number of innovation projects, often just one and hence the need for a process may be less acute than in a large, complex, R&D driven firm with a portfolio of active projects.

SME Management Development Insights is a collaborative initiative from Skillnets and Dublin Institute of Technology. Each Insight is based on academic research relevant to Irish SMEs and is intended to communicate the key implications, insights and recommendations of this research to a wide SME readership, providing opportunity for the research to contribute to improved decision making, practices and policy development for Irish SMEs.

For further information the Series editors are Dr Lorcán Ó hÓbáin of Skillnets (l.ohobain@skillnets.com) and Paul O'Reilly of the Dublin Institute of Technology (paul.oreilly@dit.ie).



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