



SURVIVAL INSTINCT

In order to understand how innovation takes place in business, SME Advisor Middle East, in conjunction with Tickbox Surveys Middle East, conducted a survey of its readers. The aim of these monthly surveys is to provide a snapshot of the current practices in the market.

In the era of globalisation SMEs face competition not only from domestic firms but also global players. Therefore, they need to have products that deliver greater quality and processes to ensure superior productivity and competitiveness.

To achieve this SMEs need to either invest in developing new products and processes or risk the possibility of having to shut down. Although globalisation requires that SMEs pay greater attention to innovation in reality it is not always possible. They tend to have various constraints that restrict their access to innovation, such as appropriate or sufficient human capital, financial resources and so on.

Even for the SMEs that may have access to such valuable resources they tend to be preoccupied with firefighting day-to-day issues. Although pure innovation, which generates substantial economic benefit, may not be possible for the vast majority of SMEs, they can, however, carry out incremental innovation. This is where an SME makes small and continuous changes to its products and processes, so as to gain competitiveness and productivity.

Innovation as a strategic priority

SMEs have certain advantages over larger firms in that their smaller size makes them more flexible and faster at decision-making,

due to a flatter management structure and size and have the ability to learn from larger firms and adapt in order to survive. Larger firms, of course, have the ability to recruit and retain a highly qualified technical team, obtain finance and are able to invest in long term R&D projects.

The success of innovation, regardless of the size of the firm, is whether it has the buy in from the top management or owner. If such a buy in takes place then innovation will be firmly embedded in the business plan of a firm and become an organisational priority. The SME Innovation Survey found that 72% of firms had innovation as one of their top three priorities. A further 11% of SMEs stated that innovation was the most important organisational priority.

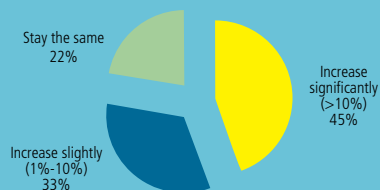
Only 17% of the SMEs did not see it as valuable and they tended to be in the trading sector. In many respects this is expected as

trading firms have very little control, if any, over the final product. The companies that saw innovation as one of their top three priorities tended to be in the services sector, while those who viewed it as the most important priority were in the manufacturing sector.

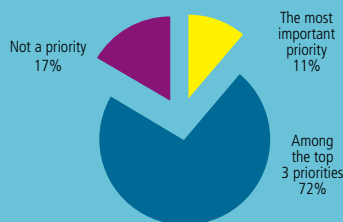
Innovation activity

Statistics throughout the globe show that firms have the highest rate of mortality in the first three years of their life. One of the most commonly cited reason for SME failure is the lack of sufficient financing, as in most cases, they are required to fulfill the same conditions as larger firms leading to a biased selection process. The lack of finance usually implies that SMEs tend to place innovation at the bottom of their list while they deal with

How will your company's effort on innovation this year compare with last year's?



Where does innovation rank among your company's strategic priorities



more pressing matters. The SME Innovation survey sought to understand the impact of finance on innovation.

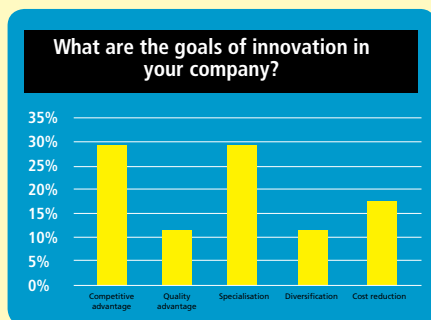
The results from the survey show that three quarters of the firms in the sample who view innovation to be an important organisational objective intend to increase their spending this year compared to last year. In fact, 45% of the SMEs in the sample intend to increase their spending on

SMEs certainly view innovation to be an important organisational priority, especially as far as the manufacturing and services sectors are concerned. They are not only including innovation as a part of their strategic priorities but are also devoting greater financial resources to it.

innovation by more than 10%. The survey did not find any firm that was looking to reduce their spending. This adds to the belief that SMEs are looking towards innovation in order to create long term sustainability of their business.

Goals and outcomes of innovation

The SME Innovation survey found that the most common goal of innovation was to become more competitive as well as to gain greater specialisation. In fact, these two reasons account for 58% of all the responses. Cost reduction was also important with 18% of firms stating it as the desired goal.



Finally, 12% of the respondents stated quality advantage and diversification were their primary goals. The survey sought to match the goals of innovation with the outcomes to date. It appears from the survey that the most common outcome is an expansion in market share. This outcome is consistent with the goal of gaining competitive advantage and to some extent, specialisation.

The second most common outcome was an improvement in service followed by quality. It appears that, although quality improvement is the fourth common objective, it is the one that SMEs are more likely to achieve. The least common outcome was an increase in exports as a result of innovation, followed by

cost reductions. The SME Innovation Survey indicates that innovation has a very domestic bias and is not centred towards exports. Also, cost reductions are difficult to achieve through innovation and may be determined by other factors.

Contributory factors to innovation

The success of SMEs in achieving their innovation goals can be quite broad, from strategic alliances to government support. Also each category, such as strategic alliances, has sub-groups, which include technology development alliances and which are designed to transfer knowledge from universities or research centres to firms, so that they can incorporate it into their products or processes and commercialisation agreements, whereby universities or research centres transfer their knowledge from firms to commercialise it; and finance agreements which provide funding in return for a share of the profits.

The most important contributory factor for innovation was the need to exploit market opportunities. In other words, survival and opportunity were the engine of SME innovation. Also, private sector initiatives such as networking sessions and information events were considered to be extremely important in transferring knowledge to SMEs.

The survey found that SMEs rarely received any financial support from either private or government sector organisations in order to innovate. Similarly, there existed very few cases of linkages between universities and SMEs.

In fact, the survey felt that this is one area that should be developed, as it allows universities to gain market exposure for their research and for SMEs to commercialise products without the need to invest in expensive R&D. By and large the respondents did not feel that there was an innovation friendly environment.

Innovation performance

In general the SMEs in the sample felt that their performance was comparable to the leading competitors in the industry. A little over half the sample felt that their innovation performance was better than the leading companies in the sector. Of these, 22% felt that their innovation performance was significantly better than the leading companies in the sector.

This pool of the sample stated that innovation was either the most important or the top three priorities in their organisation and they sought to increase their funding activity by over 10% this year. Only 11% of the sample felt that they were slightly lagging the leading companies in the industry.

Conclusion

It appears from the SME Innovation Survey that SMEs certainly view innovation to be an important organisational priority, especially as far as the manufacturing and services sectors are concerned. SMEs are not only including innovation as a part of their strategic priorities but are also devoting greater financial resources to it.

The survey found that gaining competitive advantage and specialisation were the main motives behind innovation activities. By and large SMEs are achieving greater competitive advantage and specialisation as a result of innovation. However, it appears that the innovation activities have a domestic focus and have not really helped the firms increase their exports. It appears that the vast bulk of innovation activity is carried out in an ad hoc manner through the need to survive or exploit market opportunities.

Furthermore, it appears that private sector initiatives, such as networking sessions and information events, are extremely important in transferring knowledge. SMEs would like to see a more innovation friendly environment with greater government support and more formal linkages with universities and research centres.

The lack of alliances between universities and SMEs is a wasted opportunity that can bring research into the marketplace and allow SMEs to exploit a talent pool (through university staff) with incurring vast costs. ■