

**A Study to Explore Innovation Management Consulting
Opportunities at SMEs**

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Comments by the Faculty

Innovation is crucial to the success of any organization irrespective of its size. Every company strives to come up with new ideas to make processes more effective, products better and services more efficient. While large enterprises have the wherewithal to innovate and manage it, their smaller counterparts may be limited in their efforts in this direction on account of their resource constraints. Small and medium enterprises (SMEs) are a major contributor to the economy of any country. But unlike their larger counterparts, they are resource strapped. Innovating will definitely help them to reduce their costs and improve their operations. This will provide them with a competitive edge and also serve as a differentiator.

Joseph Schumpeter (1934) considered SMEs as the main drivers of innovation as they are nimble in their decision making unlike large enterprises. But not all SMEs may be capable of innovating or protecting intellectual property on account of various factors including a lack of awareness about how to manage innovation. In such cases, organizations which provide innovation management services can come to their aid and help them to innovate and manage innovation.

Innomantra Consulting Pvt. Ltd. (ICPL) is a niche Innovation and Intellectual Property Management Consulting firm. They provide end to end services in the area of innovation starting from creating a culture of innovation to Product Management and Organizational Innovation. They want to become leaders in this field. Currently, their clients include fortune global 500 and a few SMEs. ICPL wanted to discover innovation management consulting opportunities in the SME space in India. Hence, this study was commissioned.

In this study, the student strived to understand if SMEs give importance to innovation, the barriers to innovation, if any, that they encounter and the innovation management consulting opportunities available at SMEs across India. During the survey, the student collected data from SMEs across India from industries like Engineering, Manufacturing, Software & IT, Power and Energy, Semiconductor etc.

This study provided the student an opportunity to gain first-hand knowledge on barriers to innovation at SMEs, resources to protect and manage IP at SMEs etc. The student has done a good job of applying her learning in class to a real world example and has demonstrated her ability to put theory into practice. This study would be useful to any company wishing to enter into the innovation management consulting practice for SMEs as there is tremendous opportunity for growth in this segment.

Neetu Ganapathy

A Study to Explore Innovation Management Consulting Opportunities at SMEs

Introduction

One of the keys to any successful business is being able to come up with new ideas to keep operations, products and services fresh. The process of bringing those ideas to reality is called innovation. It's about making changes that will improve the efficiency, profitability and ultimately, the viability of a business. Competency, strategy and effective management form the three pillars of innovation.

Joseph Schumpeter argued that anyone seeking profits must innovate. He believed that innovation is considered as an essential driver of competitiveness and economic dynamics. According to Schumpeter, innovation is a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one". (Sledzik, p. 90)

Firms, both large and small need to innovate. In its infancy, an organization is designed to bring innovation to the market. A start-up's success is not gauged by earnings or quarterly reports; it is measured by how well it identifies a problem in the market and matches it to a solution. If venture capitalists think entrepreneurs have identified a big problem with an interesting solution, they fund the start-up. If those entrepreneurs match and improve this solution, they'll see growth in revenues and, ultimately, profitability. But this is not so within a mature organization.

Once a company gets to a certain size, it starts to lose its appetite for risk, across many facets of its business. And, the bigger the company gets, the more risk averse it gets, regardless of whether or not the company had innovation as a part of its original DNA. When corporations reach maturity, the measure of success is only by its profit. Companies like Google, Xerox, Apple, 3M, etc. are some of the world class performers, known for continuous innovation, who are clearly exceptions to the rule, compared to most other businesses.

While large companies are capable of innovating and managing the same, small and medium enterprises (SMEs) may lack the resources to do so. They may innovate but lack the tools to manage the innovation. Innovation management is the process of capturing and managing innovation, both in terms of product and organization. Effective innovation management requires a defined process model, a focus on innovation, and the right tools to manage it. Innomantra Consulting Pvt. Ltd. (ICPL) is a company that offers innovation management services.

Via this study, the researcher attempts to understand the readiness of SMEs to Innovation and IP (Intellectual Property) in order to explore business opportunities in the area of Innovation Management Consulting for SMEs. Based on the research and analysis a few insights have been provided to ICPL which would help them to understand new ways to expand their operations and enhance their global outlook. In the next few sections, the methodology adopted and the findings and recommendations of the study are elucidated.

Company Profile

ICPL is a niche Innovation and Intellectual Property Management Consulting firm. They help organizations achieve their innovation goals by providing services and solutions that are both customer-centric and outcome oriented. Their offerings span the entire spectrum ranging from promoting a climate and culture of innovation to the phase where commercialization of products and IP takes place. They also develop processes and build specific interventions based on client requirements that are centred on innovation. Headquartered in Bangalore, India, and with offices in Mysore, Pune and Zurich, their clients range from small entrepreneurial enterprises to Fortune Global 500 companies. Even though ICPL is doing well with its Functional Innovation Methodology and IP Consulting and Services, the company needs to expand itself and look for opportunities in unexplored sectors for accelerating its growth.

Background to the Study

Small and medium-sized enterprises (SMEs) are businesses that maintain revenues or a number of employees below a certain standard. Every country has its own definition of what is considered a small and medium-sized enterprise. For example, in the European Union, SMEs are made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million Euros, and/or an annual balance sheet total not exceeding 43 million Euro. On the other hand, in the United States, there is no distinct way to identify a SME; it typically depends on the industry in which the company competes. The Government of India has defined SMEs in the manufacturing sector as entities that have an investment in plant and machinery of above Rs. 2.5 million and below Rs. 100 million.

SMEs have been considered one of the driving forces of modern economies due to their multifaceted contributions in terms of technological innovations, employment generation, export promotion, etc. Of these, the ability of SMEs to innovate assumes significance because innovation lends competitive edge to firms, industries and ultimately, economies. SMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. However, the potential of SMEs is often not realized because of problems commonly related to size, isolation, market opportunities, standards/quality, supply chains, logistics and technology, innovation, etc. Small firms consistently report higher financing hurdles than large enterprises given their small size, limited assets, and general inability to raise funds through credit markets or publicly traded equity. In order to enable SMEs tide-over the problems of technological backwardness and enhance their access to new technologies, it is imperative to offer them a conducive environment, in the present context of globalization. (Vijay P. Talodhikar, 2013)

SMEs play a central role in the European economy. These are mostly micro-enterprises and in 2013 employed approximately 88.8 million people which represents 66.8% of the total employment for that year. Five key economic sectors account for approximately 78% of all SMEs in the European Union (EU) namely, "manufacturing", "construction", "professional, scientific and technical activities", "accommodation and food" and "wholesale and retail trade, repair of motor vehicles and motorcycles". Among these five sectors, the retail/wholesale sector is the largest in almost all EU member states.

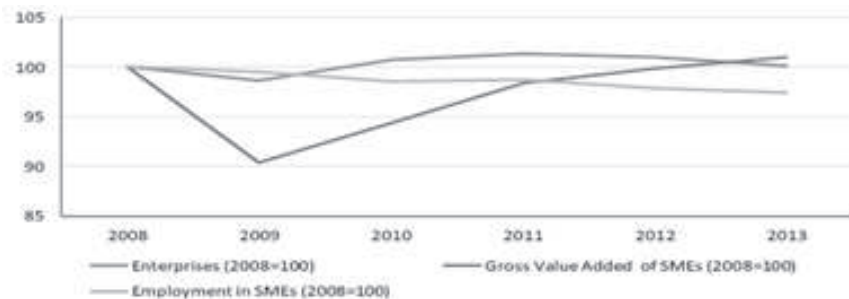
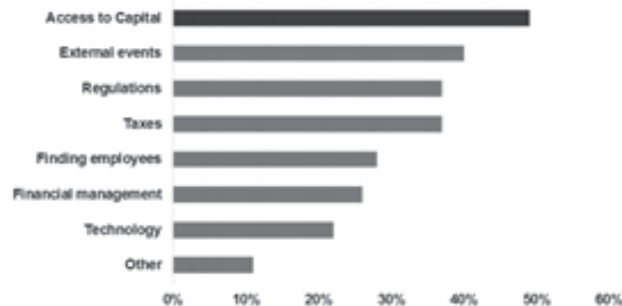


Figure 1 - Performance of the EU SME Sector in 2013

In 2012, the GDP of the EU had declined by 0.3% and the GDP per capita did not recover to 2007-2008 levels. Even though overall economic conditions improved marginally in 2013, the overall macroeconomic environment continues to be very challenging for SMEs (Dimitri Gagliardi, 2013). However, the EU is encouraging SMEs and has recently given out funding worth Euro 7.75 million for SME innovation studies.

In the U.S. too, small and medium-sized enterprises form the backbone of its economy. They make up 99 percent of all firms, employ over 50 percent of private sector employees, and generate 65 percent of net new private sector jobs. SMEs represent 98 percent of all U.S. exporters and 34 percent of U.S. export revenue. To grow and contribute to the U.S. economy and exports, SMEs need access to free cash flow and credit. Surveys have listed access to capital as the most severe obstacles to future growth. No other challenge such as taxes, finding employees, or regulations, are as widely cited. (Suominen, 2014)



Source: FRBNY Small Business Credit Survey, May 2013 (N=670)

Figure 2 - Growth Challenges Among US SMEs, 2013

In low-income countries, especially in the least developed economies, SMEs and informal enterprises account for over 60 percent of GDP and over 70 percent of the total employment. Here, the great majority of the poorest of the poor make a subsistence level of living. In most developing countries like Zimbabwe, the contribution of SMEs is below potential. Therefore, in order to tap into the potential of SMEs for development and poverty reduction, an important

policy priority in such countries would be to reform the policies that divide the informal and formal sectors, so as to enable the poor to participate in markets and to engage in higher value added business activities. The domestic SME/private sector has to expand, through the creation of new and innovative firms and the graduation of as many informal enterprises as possible into the formal sector.

According to a survey conducted in 2013 by market research firm Zinnov, India is home to around 4.88 crores small and medium business (SMB) units and it would soon be the largest SME nation globally. As per the report, about 8.11 crores people in India get employment through SMB sector. Statistically, SMEs contribute more than 8 percent of India's total GDP.

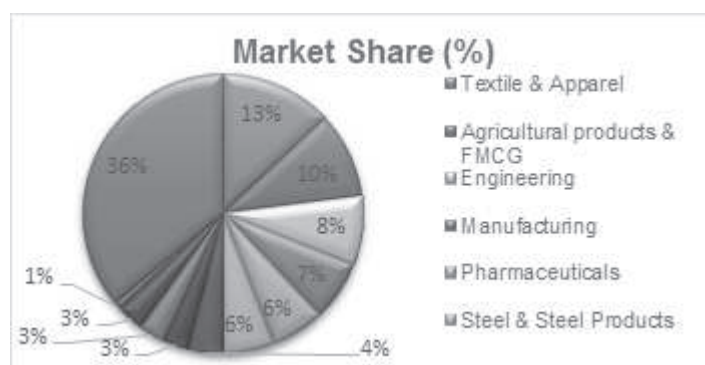


Figure 3 - Market Share Distribution of India's SMB Sector

One of the major bottlenecks to the growth of SMEs in India is the unavailability of sufficient and timely funds to finance their growth plans. Banks are the dominant channel for funding SMEs. But the approach followed by banks to funding is restrictive. A bank has to necessarily evaluate the risks involved, gauge collateral support and the methods to mitigate those risks. There is a huge amount of paperwork involved and the process is cumbersome. Therefore, it is not always possible for an entrepreneur to satisfy all requirements and conditions that the bank might pose.

While there is considerable empirical evidence to throw light on SMEs' contributions towards the growth of a nation's economy, there is little evidence which reveals how innovative SMEs are in rapidly industrializing economies like India and other developed nations of the world. Hence, this study was undertaken.

Objective of the Study

The objective of this study is to analyze how important innovation is for SMEs, the nature of their innovations and their achievements and the barriers to innovation. This is intended to provide insights to ICPL by assessing the underlying opportunities in Innovation Management Consulting, if any.

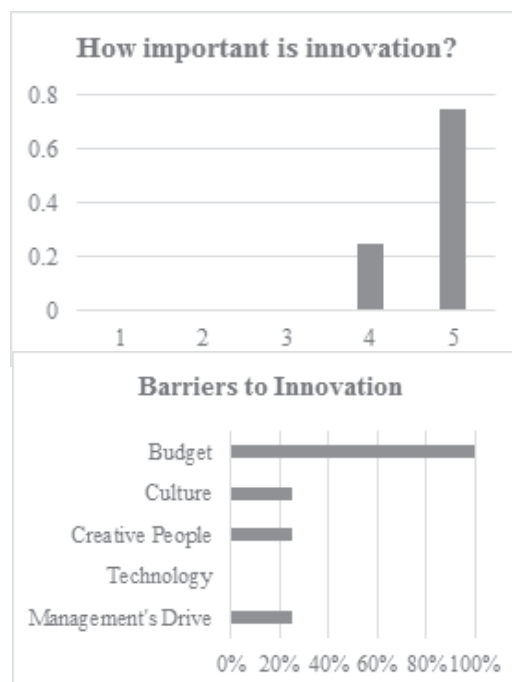
Methodology

This study involved both primary and secondary research. Secondary research comprised of collecting data from published journal articles, newspapers, magazines, working papers and other theoretical publications on SMEs, both electronic and printed, and government statistics. For the primary research, the simple random sampling method was used in choosing a random sample of 40 entrepreneurs from a large set of entrepreneurs whose business falls in the SME category.

A questionnaire was designed which consisted of questions on the following areas: importance of innovation in ensuring success in the past 5-10 years, key sources of innovation in their organizations, the kind of innovation that would have the biggest impact on economic value creation in their organizations, methods of generating ideas in their organizations, major hurdles for capturing innovation opportunities in their organizations, resources to protect and manage IP in their organization and number of patents filed in the last 5-10 years. The survey was carried out by administering the questionnaire through email to the chosen group of entrepreneurs from diverse industries.

Data Analysis and Interpretation

The survey carried out to assess the Innovation readiness and IP (Intellectual Property) of SMEs captured the data as shown below:



*Figure 4 - Importance of Innovation and Barriers to Innovation in SMEs
- Research Findings*



Figure 5 - IP Resources in SMEs - Research Findings

The data captured was analyzed using frequency distribution (histogram). After analyzing the responses, the following inferences were arrived at:

- i. Customer Insight and technology are the major sources of innovation in most organizations.
- ii. New product/services, new processes and new business models all create value to organizations, with new product/services being the major one.
- iii. Considering the reputation of the organization as innovators, it is seen that successful SMEs have been known as constant and successful innovators whereas, others, though not an innovator, are mostly seen as dependable and reliable.
- iv. Lack of creative people, culture not conducive to innovation, lack of management drive all seem to pose as barriers to innovation with budget being considered as the major reason for an organization for not being able to innovate.
- v. Generation of ideas in SMEs mostly take place by gaining customer insights, although at times, adhoc method and systematic approach like TRIZ, functional innovation and design thinking also contribute to ideation in organizations.
- vi. Very few organizations have their own resource to protect and manage IP (Intellectual Property).
- vii. Barring a few, organizations mostly haven't filed any patents in the past 5-10 years. However, they do agree that building IP capability is necessary to stay ahead in the competition.

Recommendations Based on Research Findings

The survey results show that irrespective of all existing barriers to innovation, SMEs do agree that innovation is what differentiates one SME from another. Also, although entrepreneurs feel that building innovation and IP capability is necessary to stay ahead in the competition, there are little or no resources to manage innovation and protect intellectual property in most of the organizations. Many businesses survive by copying and adapting the innovations of others, and can benefit from their hard work. ICPL has been effectively providing services in Intellectual

Property Management. Since, financing is widely found to be the single most robust determinant of firm growth, ICPL can put together a tailored framework for those SMEs which aspire to stay ahead of the competition, and strategically manage innovation and technology for effective IP generation in an economically viable manner.

Conclusion

One of the strongest indicators of a robust, healthy economy is the prevalence and productivity of small to medium-sized enterprises (SMEs). In healthy economies, SMEs are the drivers of jobs and income for the middle class. At the same time, the weakness of a country's SMEs can be an indicator of a fragile economy. At present, ICPL is mostly working with large corporations and with fewer competitors in the niche segment of Innovation Management Consulting. But, with the advancement of society around the world and cut-throat competition for success, it is imperative for consulting firms like ICPL to be constantly on the watch and broaden its horizon with newer offerings. There lies a considerable amount of potential in tapping the SMEs which have contributed in key areas like IT, manufacturing, power and energy, etc. and are keen to progress in their business graph by means of innovation and intellectual property. While doing so, ICPL should also target the European and US markets as they have a growing market for Innovation Consulting services. This would help the organization to expand and enhance its presence globally.

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