

**Innohubs**  
Exchanging experiences

# Innovative SMEs: The challenge of local support initiatives

Rui Ferreira, AUDAX/ISCTE – [rui.ferreira@iscte.pt](mailto:rui.ferreira@iscte.pt)

GETAFE, 01/12/10



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- I. What is innovation?
- II. The SME role in the innovation process
- III. The innovation context in EU
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# I – What is innovation?

A story to help getting a definition...

- A man was accused of a murder and went to jail;
- His father visits him and laments: “I need you so much at the farm. I am old and frail and cannot plough anymore. Our crops are lost;
- Question: how can the farmer solve this problem?



# I – What is innovation?

The story continues...

- Two days later the father receives a letter from the son that reads:  
“Dear father,  
Please do not plough our land. That is where I have hidden the  
body and this will create problems for me”
- Question: What can this letter do for the situation?



# I – What is innovation?



What happened...

- As usual the prison guards did read the letter;
- As usual they informed the police;
- The police ploughed the whole land in search of the body;
- No body was found;
- The father had his land ploughed effortlessly and costlessly;
- There will be crops!



I – What is innovation?

Innovation = Creativity + Efficiency

- An original idea that is useful and can be implemented **efficiently**.

# I – What is innovation?

Innovation = Combinations/Connections

Visionary Integration

Information



*Right side of the brain*



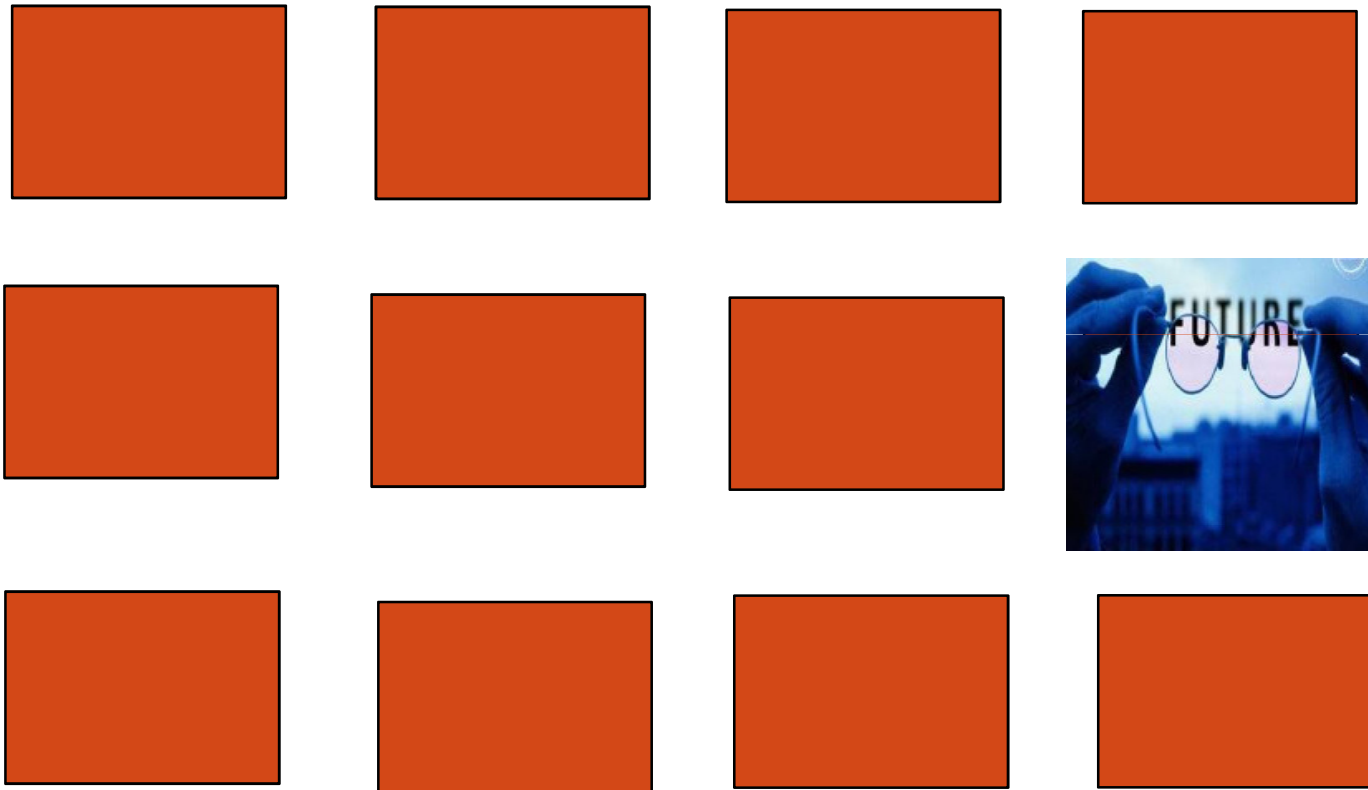
Instinct



*Left side of the brain*

# I – What is innovation?

Innovation starts with an opportunity... that must be seen! Examples?



# I – What is innovation?

We are lucky... innovation is just beside us...

*Thanks to new technology some things have changed in terms of:*

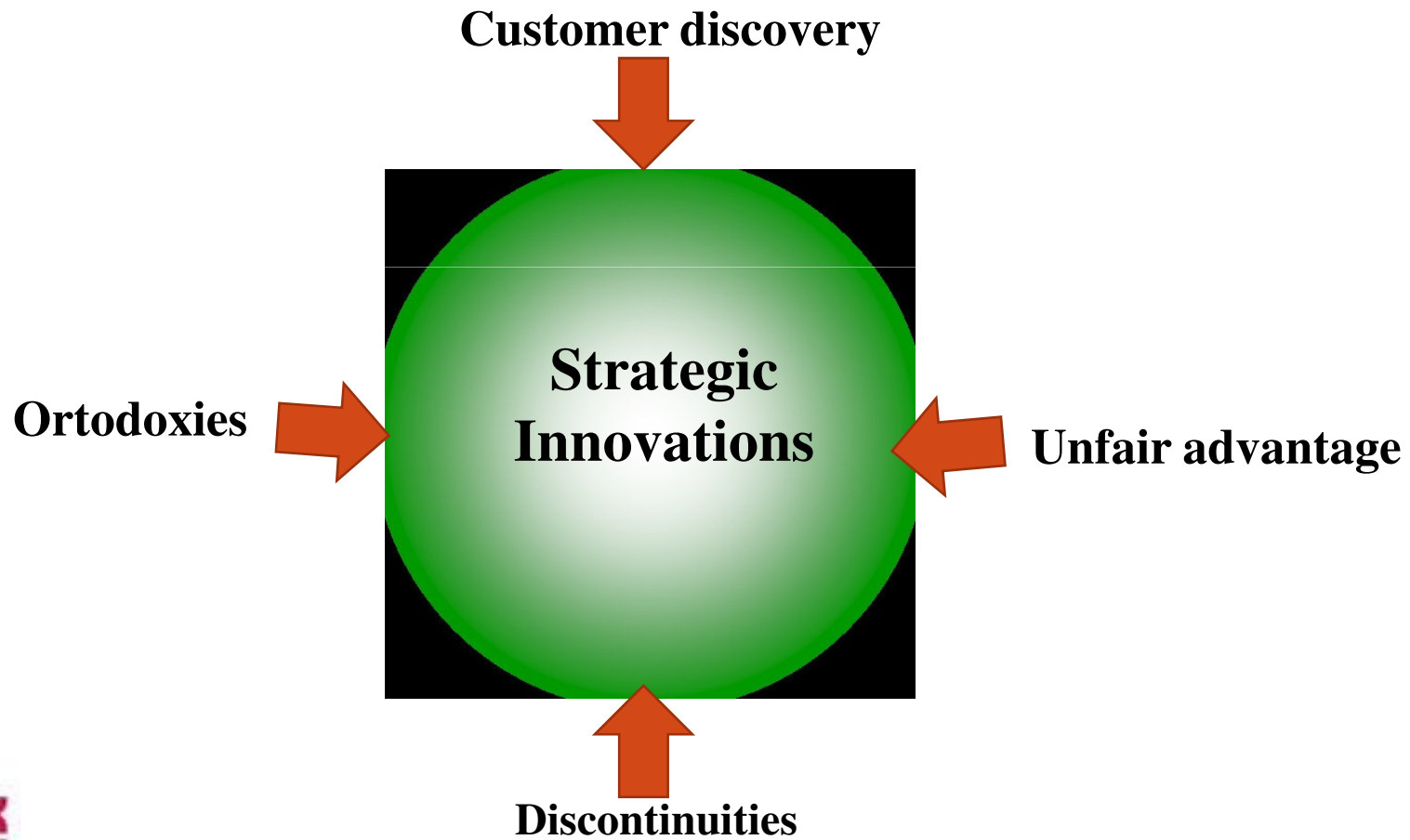
- Time (*when things can be done*)
- Place (*where things can be done*)
- Actor (*who can do what*)
- Constellation (*with whom it can be done*)

[http://www.youtube.com/watch?v=NugRZGDbPFU&feature=player\\_embedded](http://www.youtube.com/watch?v=NugRZGDbPFU&feature=player_embedded)

# I – What is innovation?

Where do new ideas come from?

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# I – What is innovation?

In reality...

- Beams of light are rare;
- Ideas are generated in a structured and systematic way and are often the result of former experience ;
- Bad ideas may generate powerful ones;
- Iteration, mistake, repetition, refinement are essential;
- Ideas alone are worth nothing;

# I – What is innovation?

Ideas are just a multiplier...

AWFUL IDEA = -1

WEAK IDEA = 1

SO-SO IDEA = 5

GOOD IDEA = 10

GREAT IDEA = 15

BRILLIANT IDEA = 20

**X**

NO EXECUTION = \$1

WEAK EXECUTION = \$1000

SO-SO- EXECUTION = \$10,000

GOOD EXECUTION = \$100,000

GREAT EXECUTION = \$1,000,000

BRILLIANT EXECUTION = \$10,000,000

‘The value of an idea is on its usage’

*Thomas Edison*

# I – What is innovation?

## Obstacles to the innovation process...

- Opportunity identification is not easy;
- There is the risk of focusing on resources currently controlled;
- Always work in established relationships and partnerships;
- Do not look into new directions;
- Fear the competitiveness...



# I – What is innovation?

Ways the competitors will find to kill a good idea:

- Devalue it
- Devalue the inventor
- Ignore it
- Steal or copy it
- It is impossible – it has never been done
- It is impossible – it was already done
- It is too expensive
- There is no market
- etc, etc.



# I – What is innovation?

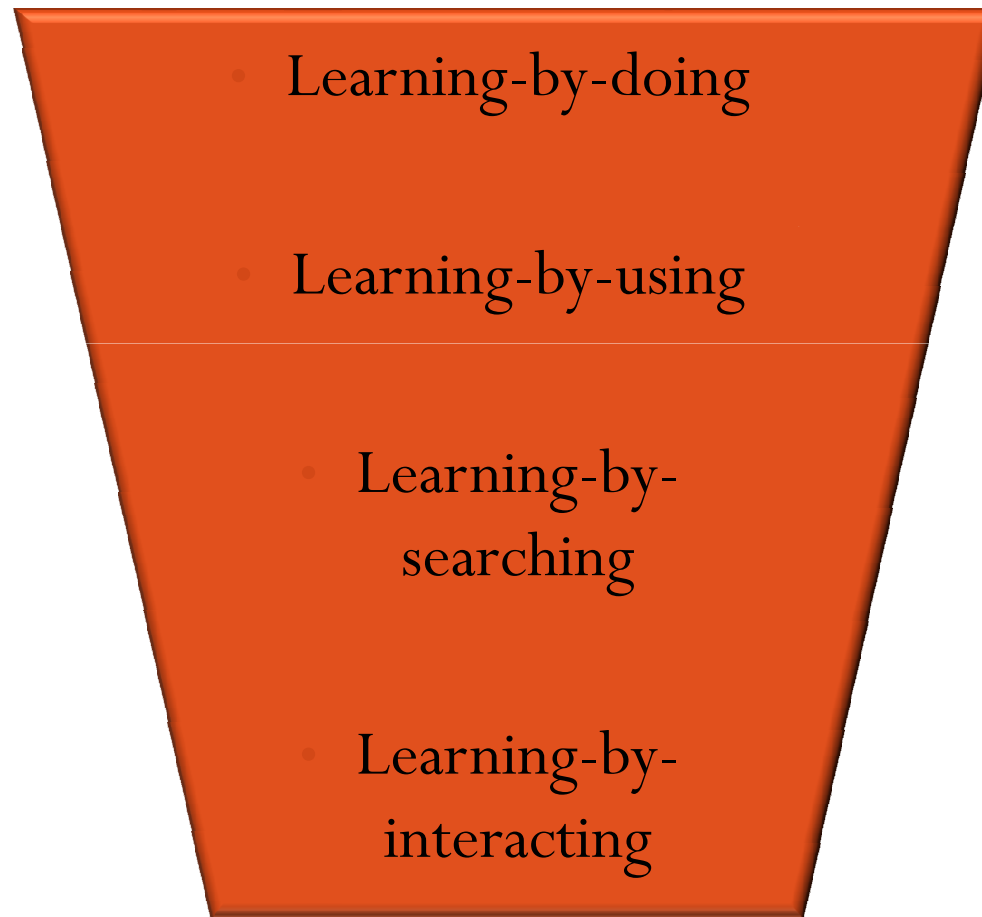
The innovation way...

- What does the customer want?
  - Good
  - Fast
  - Cheap
- What does the customer *really* want?
  - The best return on his investment =>  
**Desirability!**



# I – What is innovation?

The innovation way...

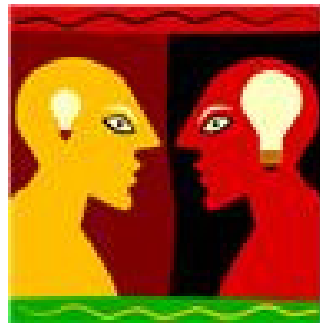


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## II – The role of SME in the innovation process

- The innovation key: to create good Value Propositions (VP) to their costumers...
- SME should Define and Quantify the VP so that it can be measured and manipulated:
  - $DQM^2 = \text{Define, Quantify, Measure, Manipulate}$
- Defining and Quantifying the VP creates a critical path for the company because:



- It allows to achieve clarity of focus
- It allows to identify where to focus resources

## II – The role of SME in the innovation process

### The innovation way for SME...

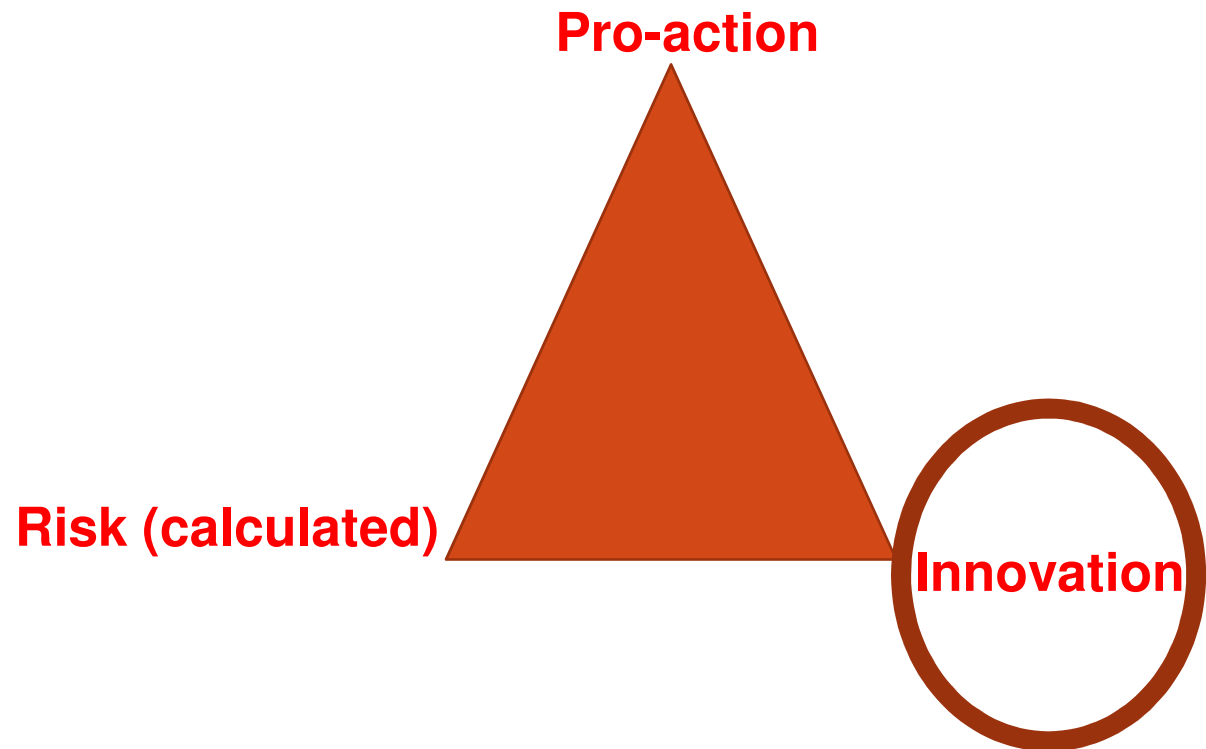
- Focus on the market!!!!
- Focus on what is really important for the customer! He will establish the base for good VP's...
- Design compelling VP's... and the company should be designed over the VP's!
- The market is dynamic. VP's must be dynamic too...
- All VP's designs will become obsolete one day...



## II – The role of SME in the innovation process

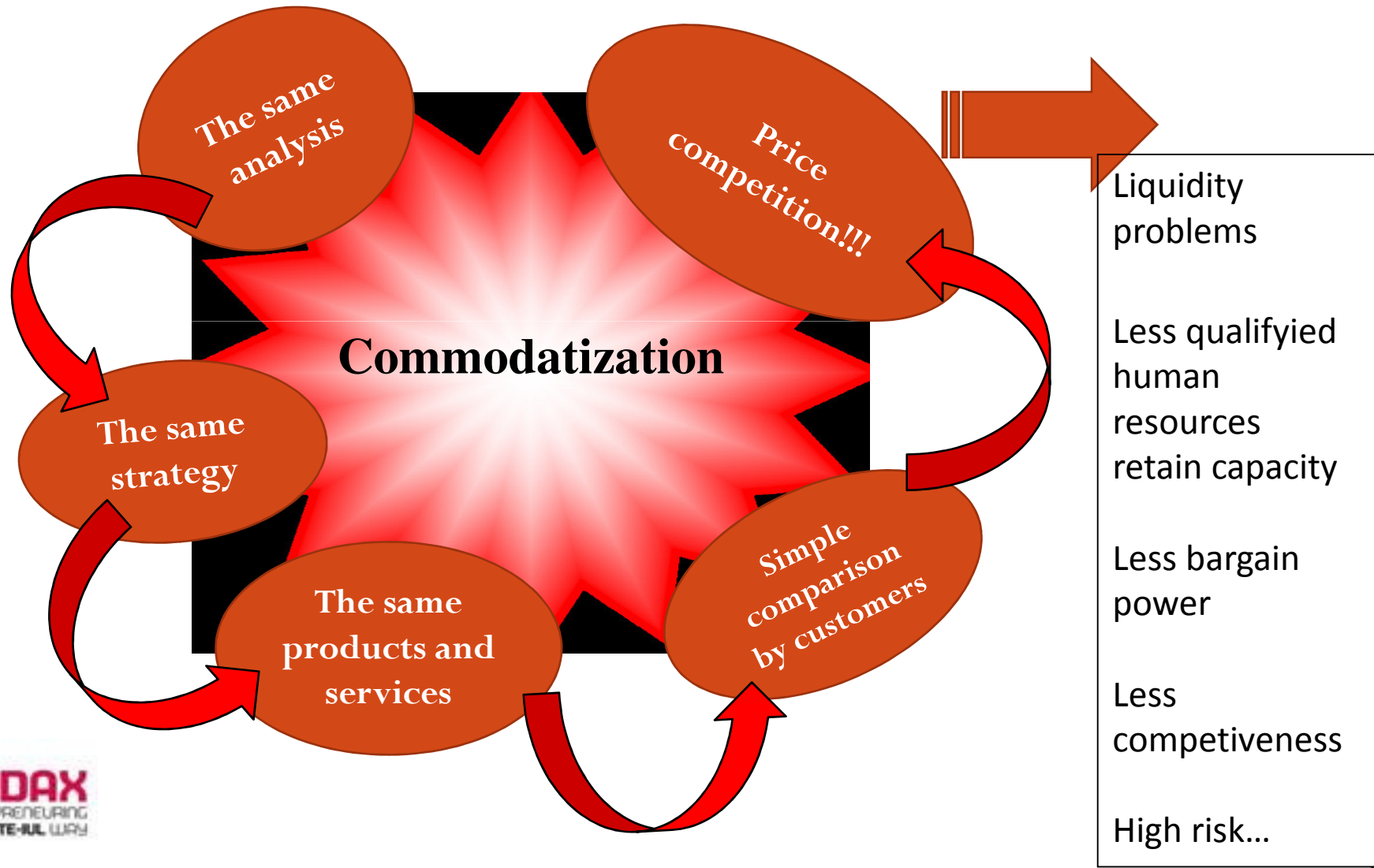
Essential for a good VP:

1. Articulate it
2. Discuss it
3. Improve it
4. “Sell it”



## II – The role of SME in the innovation process

What should be avoid: traditional approach leads to commodatization...



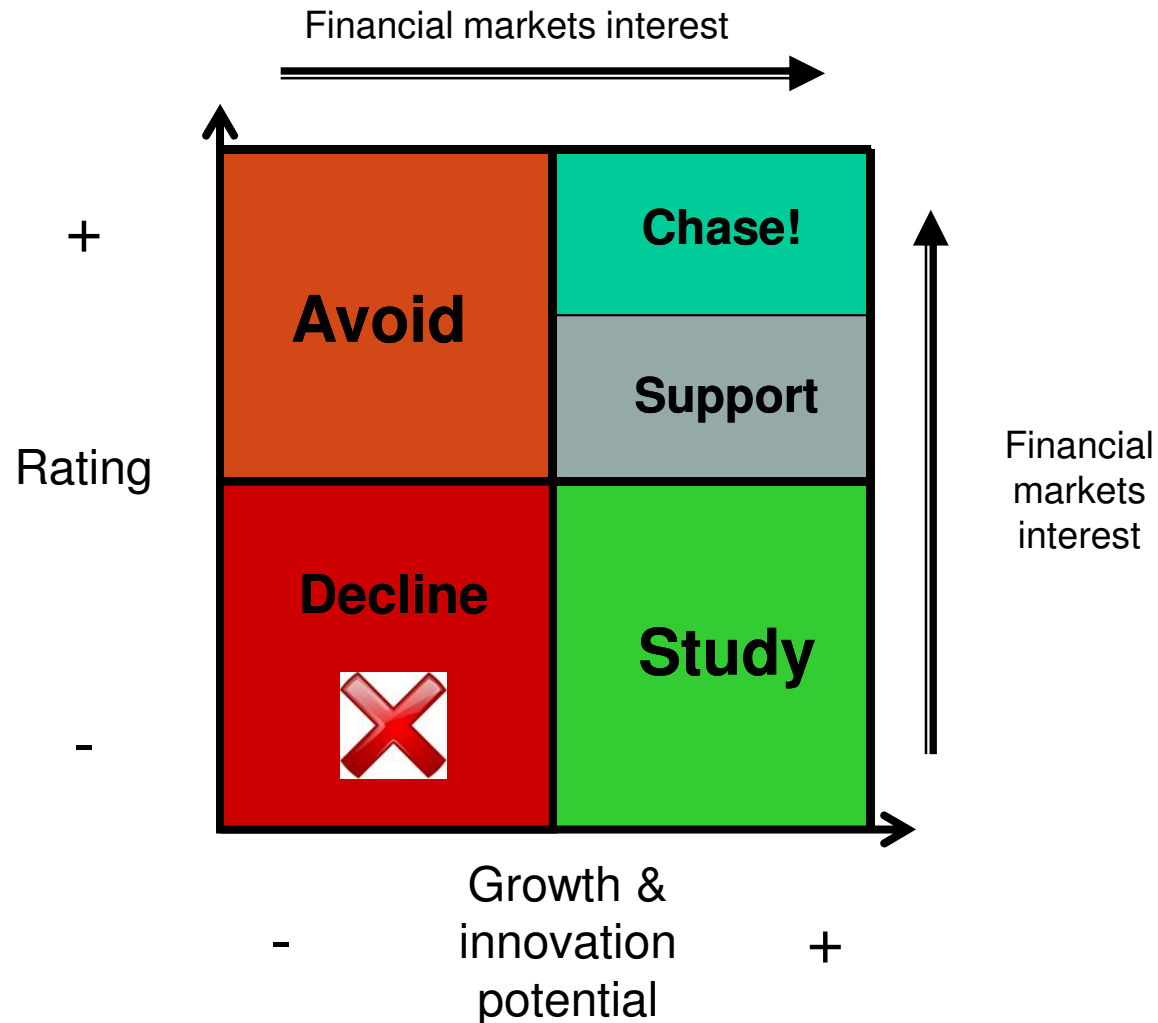
## II – The role of SME in the innovation process

The financial markets vicious cycle towards SME...

– Financing Demand (SME) – Constraints	– Financing Supply – Constraints
Lack of perceived quality of the disclosed financial information	High level of concentration (reduced number of potential financiers)
Difficulty in sharing market information, mainly in technological projects, which makes measuring risk difficult	Transaction costs only affordable in major projects and within traditional sectors (innovative projects difficult to tackle)
Poor financial culture, reduced scale and negotiation capacity	High level of sophistication
Difficulty in assuring guarantees, particularly in the start-up stages	Collaterals demands, despite efforts developed recently by risk analysts
Excessive concentration in ownership and usual resistance to accepting new equity partners	Reduced liquidity in the capital markets, with primacy for large companies
Lack of an entrepreneurial culture and investment in R&D projects	Lack of partnerships with proximity agents - v. business angels or coaches

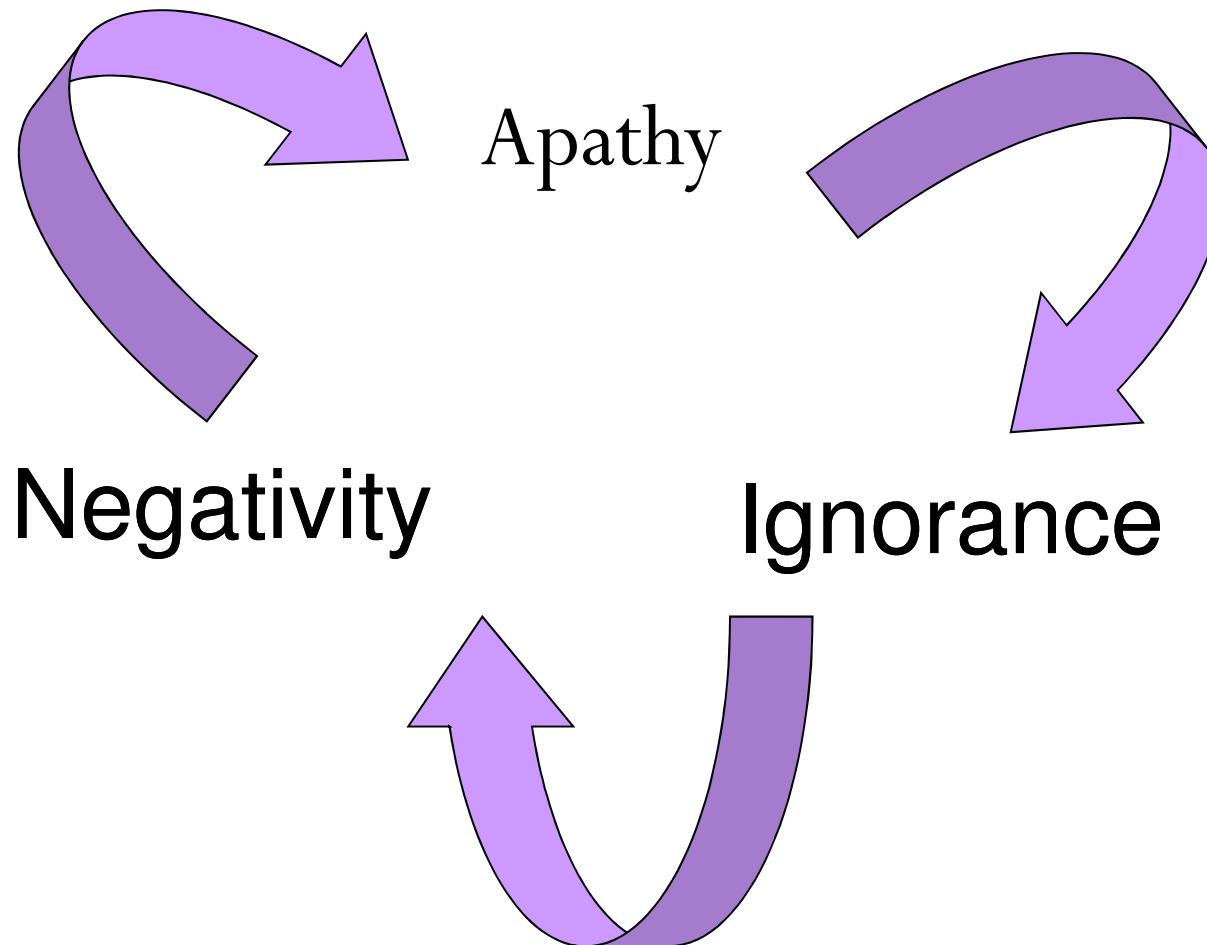
## II – The role of SME in the innovation process

The financial markets vicious cycle towards SME...



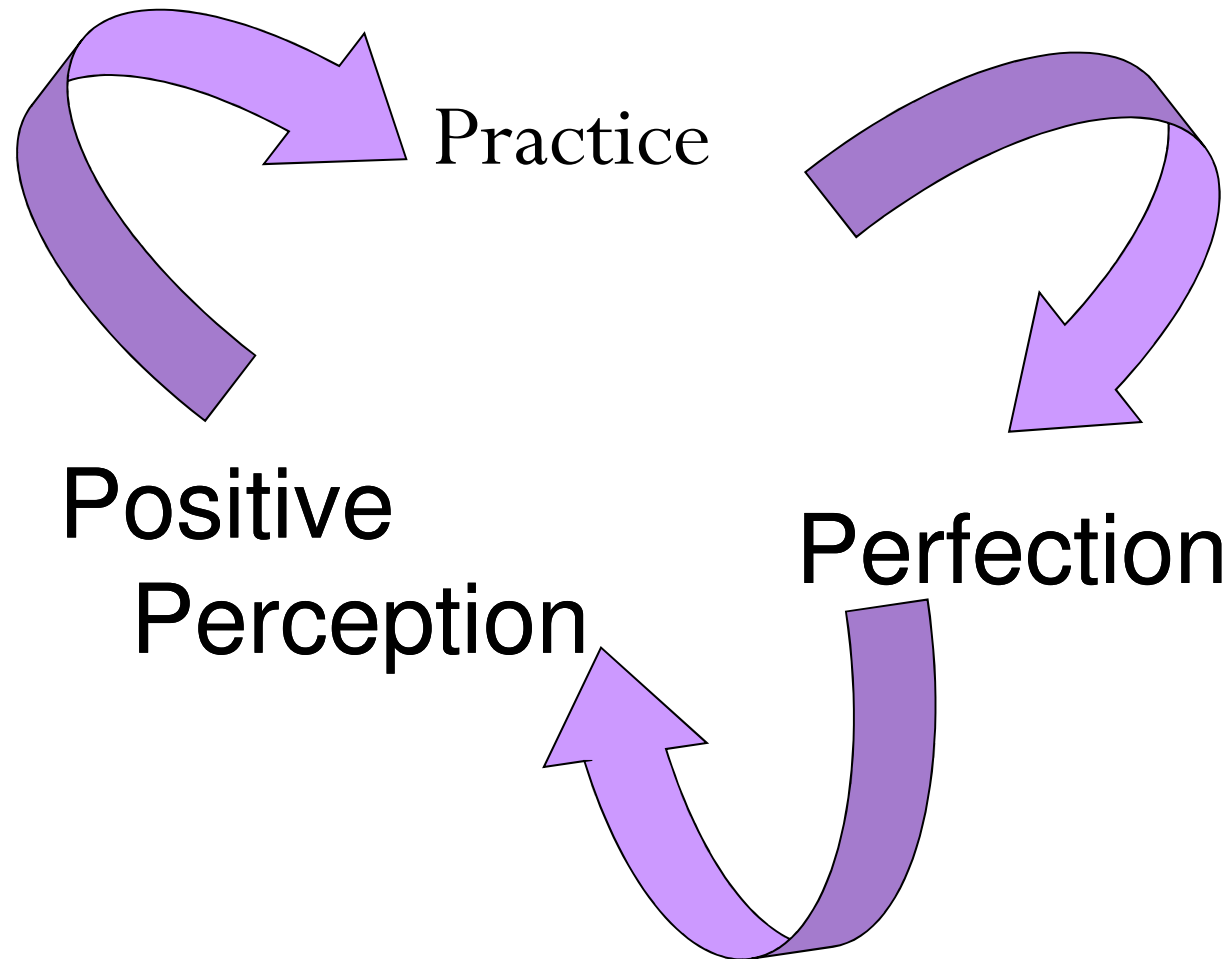
## II – The role of SME in the innovation process

What about the entrepreneurs? A vicious cycle should be also avoided...



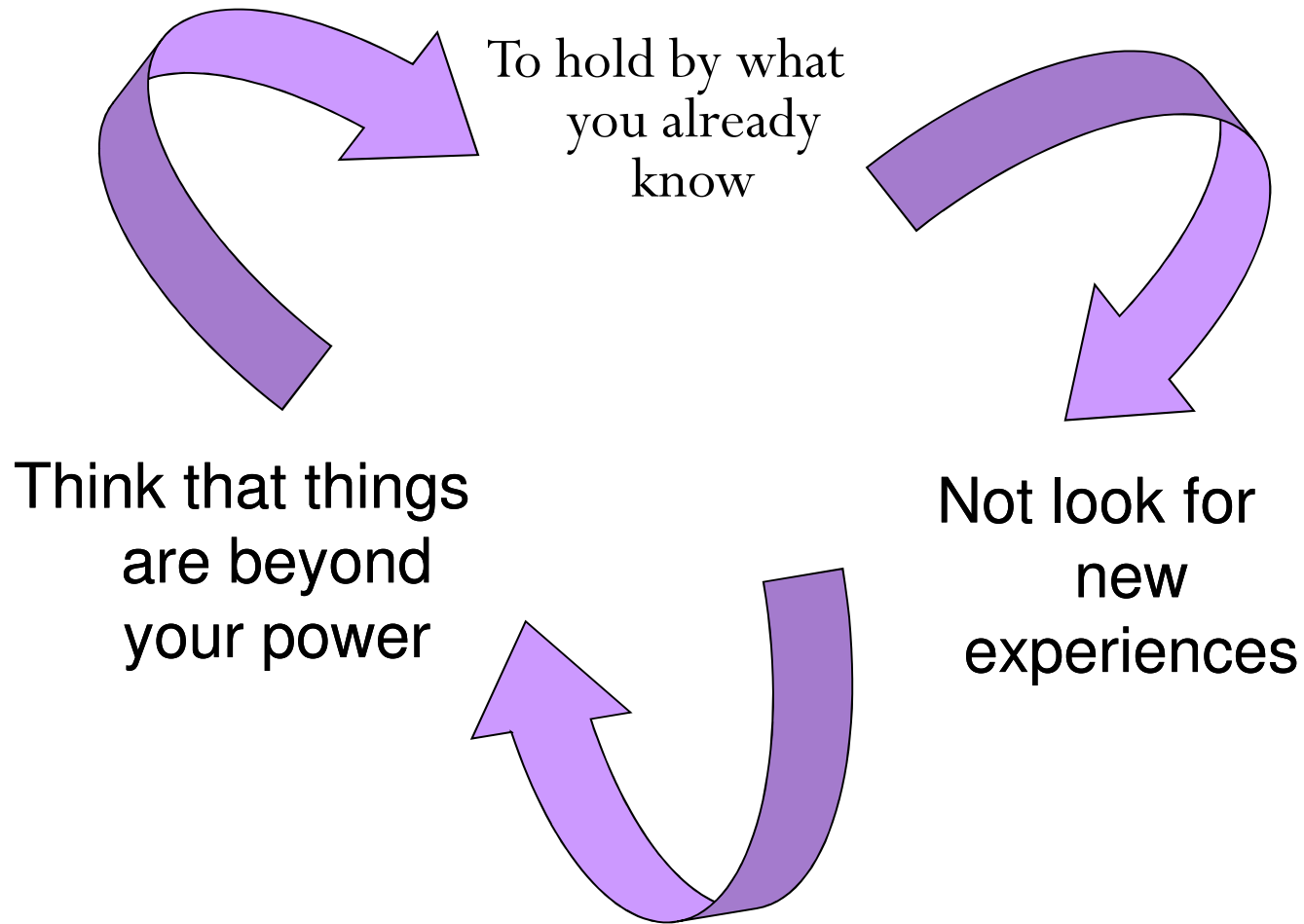
## II – The role of SME in the innovation process

What about the entrepreneurs? They should perpetuate the Virtuous Cycle of Creativity:



## II – The role of SME in the innovation process

Entrepreneurs shouldn't let the Virtuous Cycle be transformed in a Vicious Cycle...



## II – The role of SME in the innovation process

What should SME and their entrepreneurs do?

- Never generate ideas only from a past experience;
- Use the mind as a processor of external stimulus;
- Combine them with cumulated experience;
- Look actively for ways to design new VP's;
- Create networks of partners with similar interests;
- A good facilitator + many different people + many stimulus = ideas + market needs deep knowledge = good value propositions

## II – The role of SME in the innovation process

What are the SME innovation drivers in nowadays context?

- To explore new markets (geographical through internationalization processes and niches through specialization);
- To assess permanently the costumer/market needs;
- To differentiate from the competitors (designing good VP's);
- To improve resources flexibility and efficiency.
- Only this way SME can reduce their risk exposure and give confidence to financial markets...transforming the vicious cycle into a virtuous cycle!

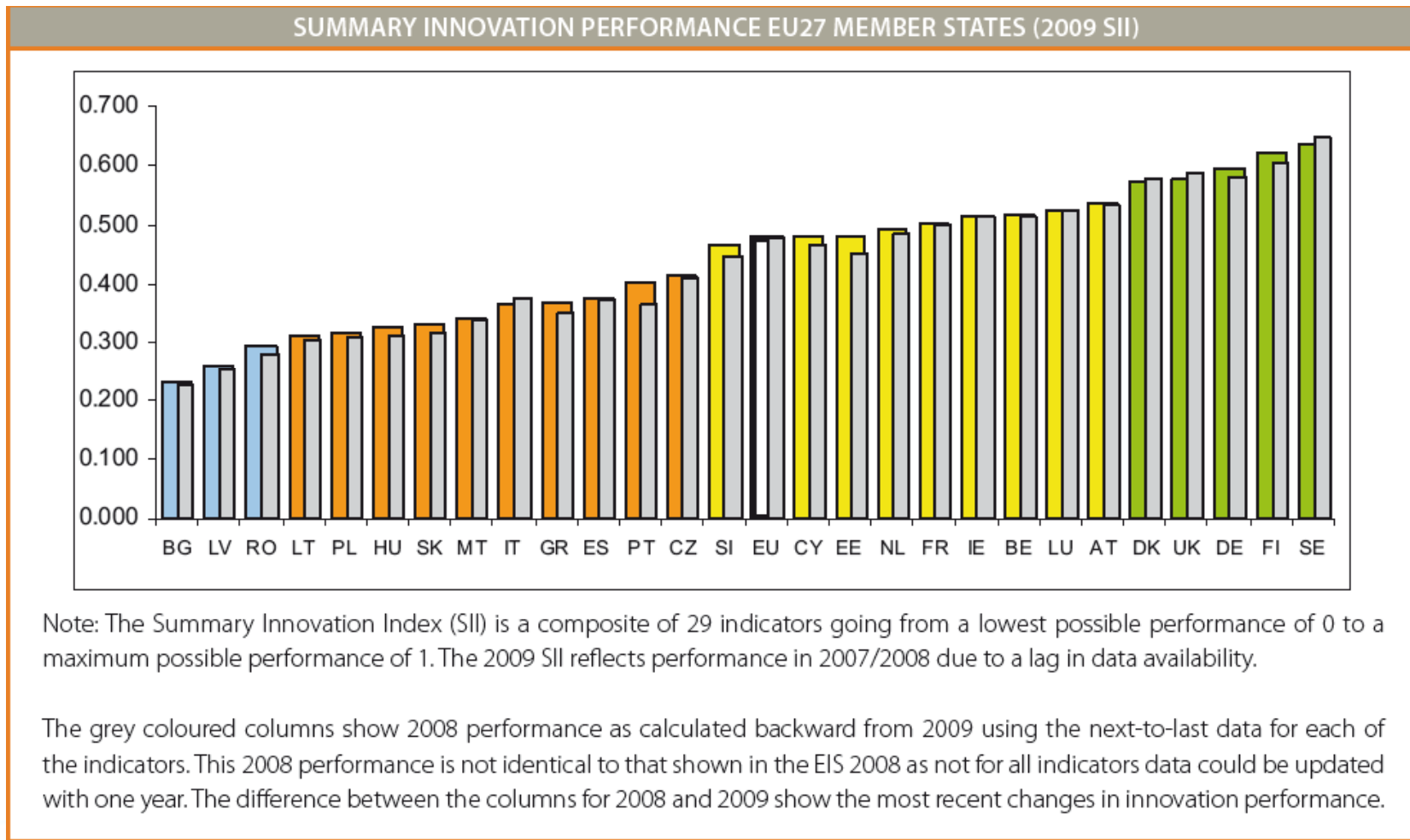


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# III – The innovation context in EU

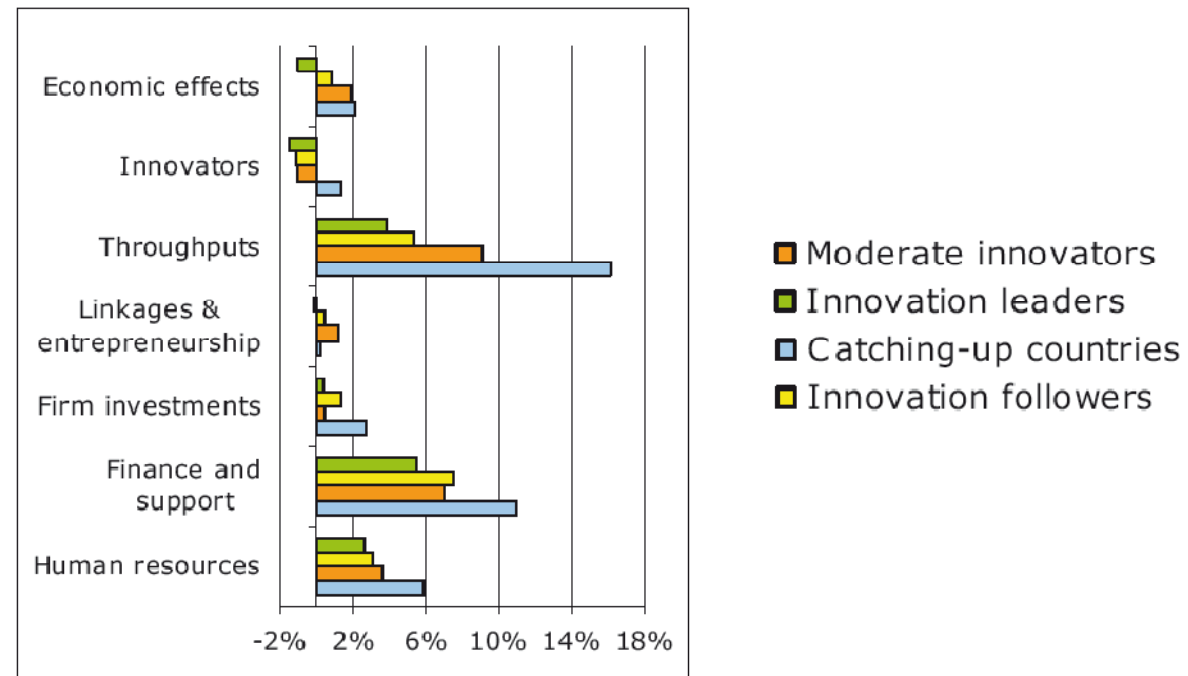
The EU reality...



# III – The innovation context in EU

The EU reality...

Group	Growth rate	Growth leaders	Moderate growers	Slow growers
Innovation leaders	1.5%	Switzerland (CH)	Finland (FI), Germany (DE)	Denmark (DK), Sweden (SE), United Kingdom (UK)
Innovation followers	2.7%	Cyprus (CY), Estonia (EE)	Iceland (IS), Slovenia (SI)	Austria (AT), Belgium (BE), France (FR), Ireland (IE), Luxembourg (LU), Netherlands (NL)
Moderate innovators	3.3%	Czech Republic (CZ), Greece (GR), Malta (MT), Portugal (PT)	Hungary (HU), Lithuania (LT), Poland (PL), Slovakia (SK)	Italy (IT), Norway (NO), Spain (ES)
Catching-up countries	5.5%	Bulgaria (BG), Romania (RO)	Latvia (LV), Turkey (TR)	Croatia (HR)



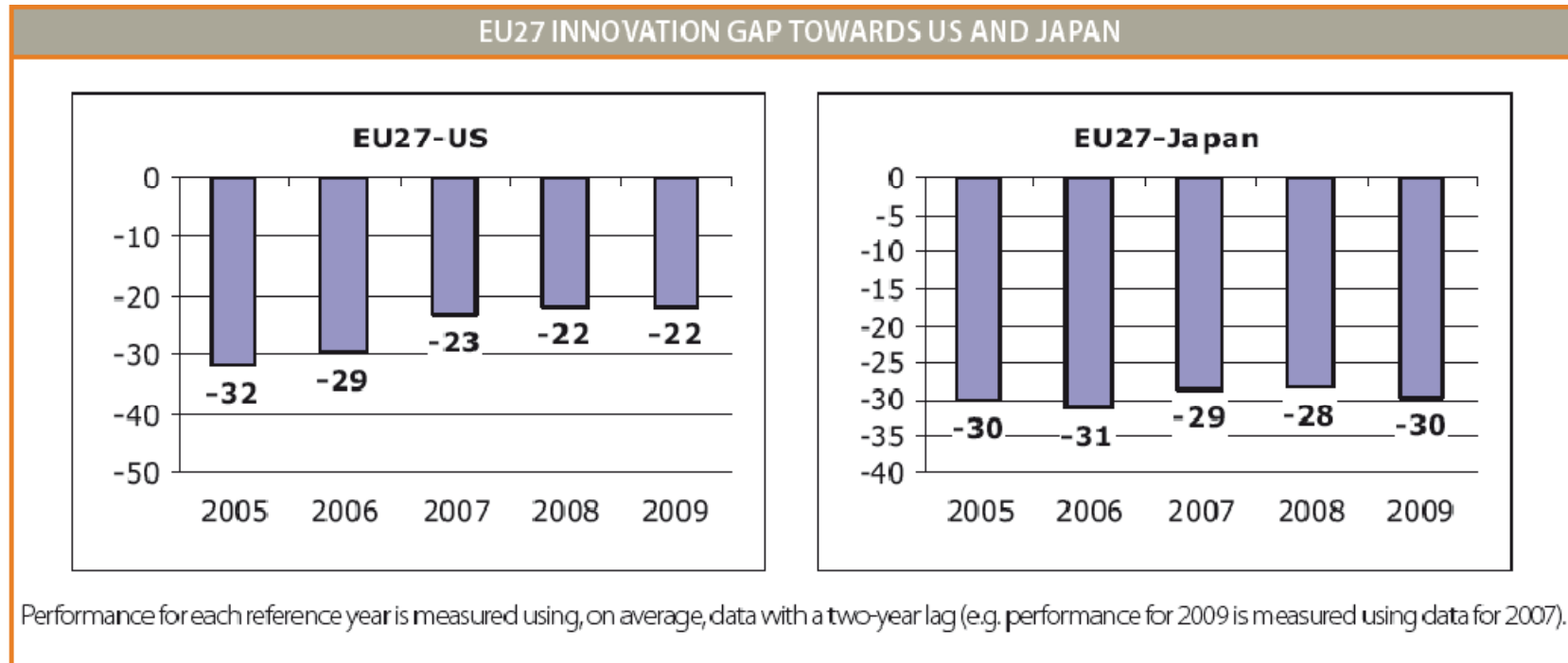
Average annual growth rates as calculated over a fiveyear period.

Source: European Innovation Scoreboard (EIS) 2009



# III – The innovation context in EU

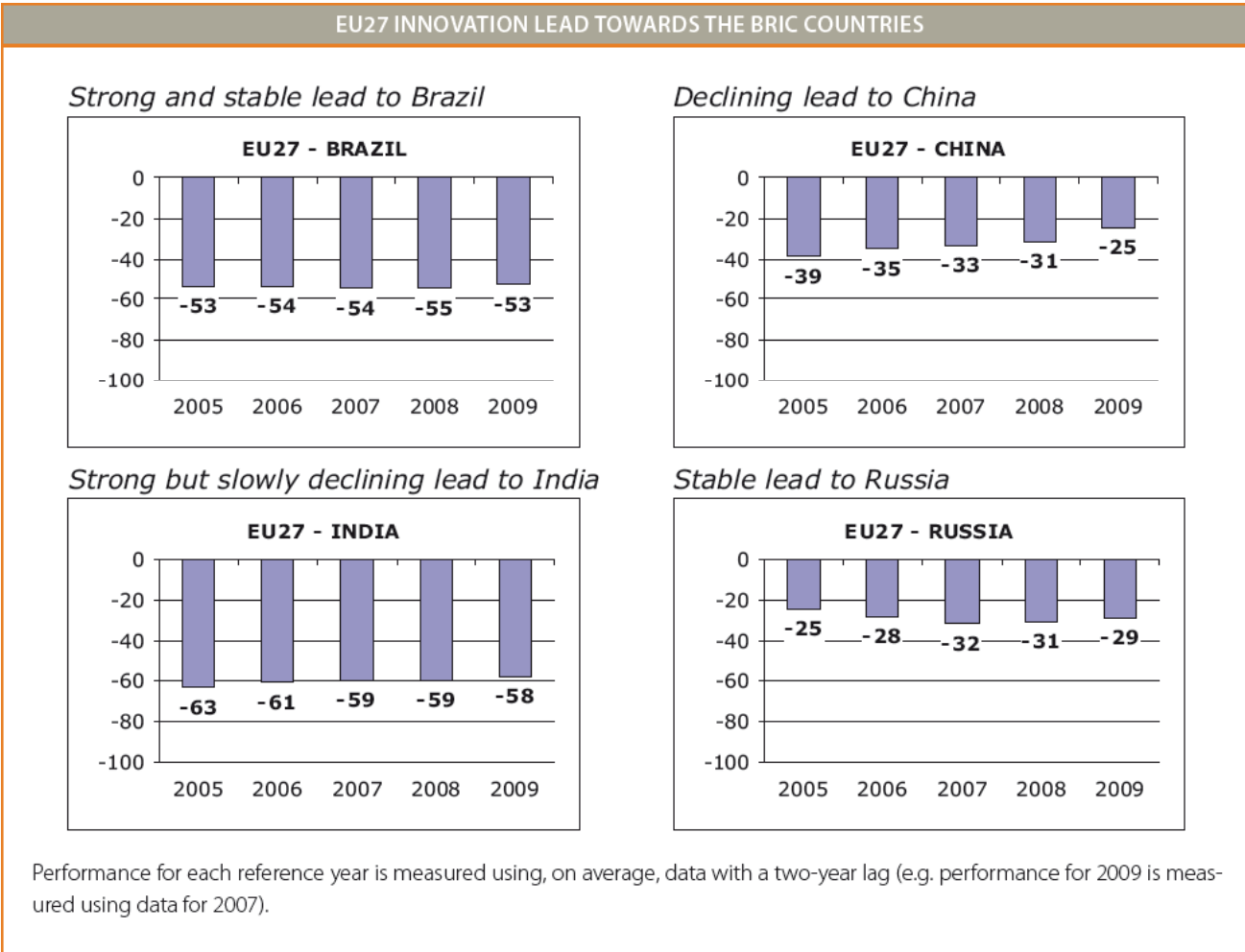
The EU reality...



Source: European Innovation Scoreboard (EIS) 2009

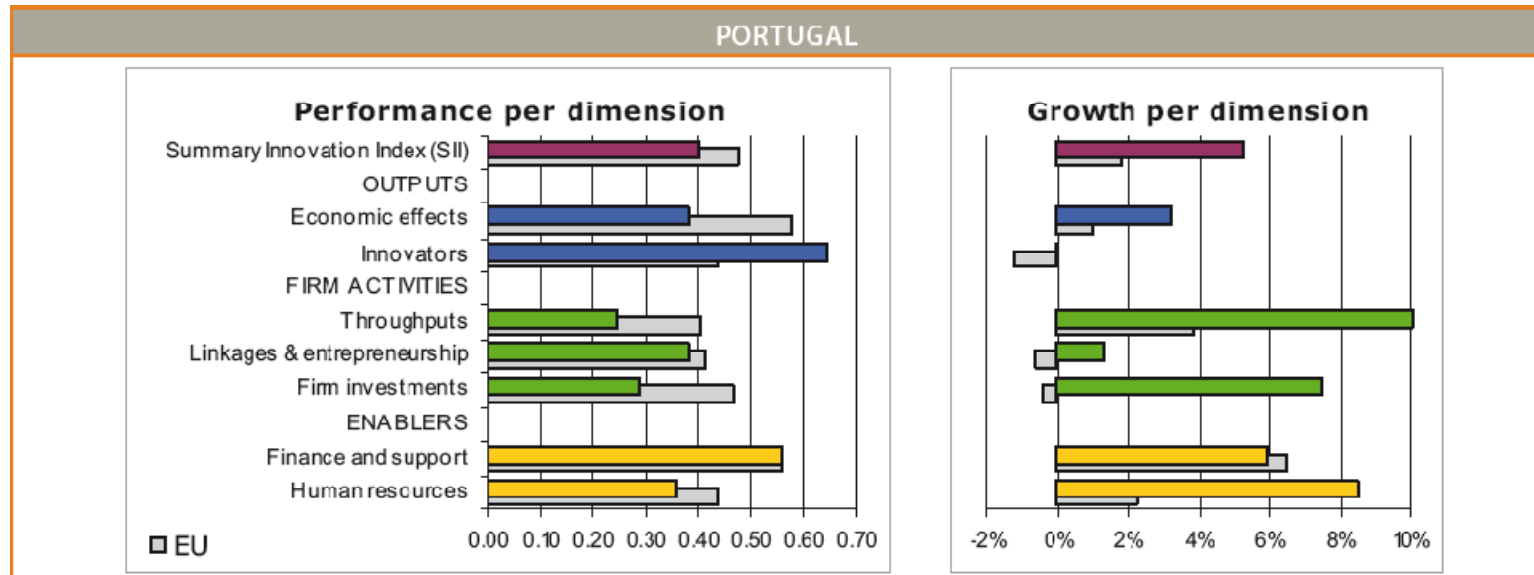
# III – The innovation context in EU

The EU reality...



# III – The innovation context in EU

The portuguese example...



- Over the past 5 years, human resources, firm investments and throughputs have been the main drivers of the improvement in innovation performance in Portugal, in particular as a result from strong growth in S&E and SSH graduates (15.8%), S&E and SSH doctorate graduates (16.9%), Business R&D expenditures (26.3%) and EPO patents (16.4%).

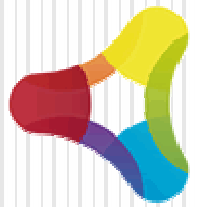
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## IV – The challenge of local support initiatives

To discuss...

- Innovation should be supported in a permanent way by governmental and local institutions, specially in SME context;
- Potential innovation support drivers:
  - Internationalization and differentiation/niche strategies (through adequate financing instruments and market assessment tools);
  - Investment in continuous R&D capabilities;
  - Human resources qualification;
  - Certification/quality assessment tools;
  - “Context costs” elimination.
- The “big question”: what is the effectiveness of those local support initiatives?



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# Discussion?

Rui Ferreira, AUDAX/ISCTE – [rui.ferreira@iscte.pt](mailto:rui.ferreira@iscte.pt)

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