

Galway – Mayo Institute of Technology

# “An Empirical Study of the Barriers to Innovation for Small and Medium Sized Enterprises in the Midlands”

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G00196649



07/01/2011

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publication 2010)  
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# Chapter 1: Introduction

## 1.1: Introduction

With the downturn of today's economy well and truly underway, even the strongest organisations don't have the funds to respond to all these changes in the economy. When a firm makes a decision about a specific path, it generally closes the door to opportunities elsewhere to focus on its main goal. Organisations in today's economy cannot afford to innovate at random. They need to have a framework in place to articulate how they think innovation can help them to change, survive and grow as an organisation.

Innovation as It may also be used as a specific instrument of entrepreneurship, the act that endows resources with a new capacity to create wealth". He also argues that innovation is the means by which entrepreneurs exploit or take advantage of change in a specific market in order to create a new product or service and business opportunities.

Organisations achieve a competitive advantage through acts of innovation, including both technology and new ways of doing things, and moving early and aggressively, as described by Porter (1990):

[http://asesoriainternacional.com/Clases%20URN/The Compertive Advantage of Nations.pdf](http://asesoriainternacional.com/Clases%20URN/The_Compertive_Advantage_of_Nations.pdf)

As cited on (<http://innovation-leadership.blogspot.com/2005/03/book-innovation-and-entrepreneurship.html>) innovation is where entrepreneurs exploit change to generate new business ideas and ventures. He also sees entrepreneurship as a process of creating value by bringing together a unique combination of resources to exploit an opportunity. They are basically saying to gain an advantage by using the specific resources that your business attains as well as look for a niche market that they could take advantage of and where there is little competition.

Firms who are classified as innovation active are those who have carried out a 'product' innovation or a 'process' innovation and who also have on-going innovative activity going on in their business. As noted on ([http://www.forfas.remediaforfas920\\_innovation\\_survey.pdf.pdf](http://www.forfas.remediaforfas920_innovation_survey.pdf.pdf))

(There are wide differences in the rates of innovative activity for different sizes of firms. As would be expected, larger businesses (250+ employees) are the most innovative as due to the amount of resources available to them when compared to those in the small and medium sized sector

Innovation like every other aspect of change has uncertainties and specific barriers in place. Innovation management in organisations can help to convert these uncertainties or barriers into a calculated risk that can be managed (Tidd & Bessant, Page 311). In saying this it does not guarantee success but it allows the small and medium sized enterprises to attempt to review the options available to them and assign some sort of probability that the risk will occur.

Organisations all over the world face a number of obstacles in their day to day business activities. Small and medium sized enterprises are no different and because of their size often suffer more as a result. (Morris, Kuratico & Covin, page 9) believe there are a number of barriers that face these businesses whether it is finance, lack of resources, or whether there is a need for more training. Innovation is such an essential part of the present and future paths of businesses.

## **1.2: Executive Summary:**

In this thesis the author hopes to look at the various barriers that affect small and medium sized enterprises in the Irish market today. He will outline these barriers and also look at how these small businesses are coping with being innovative in the current recession that Ireland has found itself in, as a result the business in the small and medium sized sector are suffering more in comparison to the larger businesses.

The research methodology being carried out will consist of both quantitative and qualitative research. The author will carry out qualitative research by carrying out a number of face to face interviews, as well and interviews over the phone with a number of small and medium sized enterprises that are based in the midlands area. By carrying out questionnaires, and surveys to obtain the relevant information needed, the author will be doing quantitative research.

## **1.3: Focus of the research:**

It is essential for small and medium sized enterprises that they constantly change in order to be able to respond changes in the specific markets that they are involved in. Change in organisations is an essential part of innovation and is one that determines how successful the organisation can be in the future. Changes can occur in a number of areas whether it is to a specific product or service change to the methods that are used in their organisation, change in the cultural issues of the company or change to respond to your competitors.

A company's success can also hinder on their ability to overcome obstacles that they face and how they respond to them. The company must understand the path they are looking to go and the potential barriers that might stop them from reaching their goals.

These barriers can put an end to the firm being innovative but this emphasizes the importance of R & D and how if it is done correctly can help to overcome barriers to innovation. It can help to put contingency plans in place if a certain scenario occurs, as well as having the necessary resources readily available.

#### **1.4: Research Objectives:**

The author's primary objective for this thesis is to look at and analyze the current barriers for Small and medium sized enterprises in Ireland today that stop them from being innovative and encouraging innovation in their organisations. He will also look at how if carried out correctly and managed sufficiently, how innovation can help these Irish Small and medium sized enterprises overcome barriers to innovation and look to add new products or improve their existing services to their customers.

The main secondary objectives for this research are to look at the various barriers that exist and today for Small and medium sized enterprises and carry out research (both qualitative and quantitative). The author will get in contact with Small and medium sized enterprises in the Westmeath region and carry out face to face interviews, as well as questionnaires over the phone to various Small and medium sized enterprises that are based around the county in enterprise centers or retail parks.

## Chapter 2: Literature Review

### 2.1: Introduction

Innovation is the process of creating and exploiting new opportunities and new ideas. This may involve the development of new or enhanced products or services as well as the introduction to the organisation of new business models, new structures or new working practices. In the past, innovation has traditionally been seen as very much been technology based, but in the present time it is seen in a broader context. In the majority of businesses today, they all realize the need to raise the levels of innovation across the technological and non-technological areas.

As stated on the (<http://www.dceb.ie/knowledge-centre/general-business-issues/innovation-in-small-business>) Drucker defines innovation as ‘when entrepreneur creates new wealth producing resources or improving existing resources for creating wealth’. Drucker in his definition clearly relates innovation to entrepreneurs and states clearly that innovation is a specific instrument of entrepreneurship. Innovation is that process by which companies seek to gain a competitive advantage in their target market and to increase their capacity to generate income for the business.

A lot would consider that innovation is important due to the everyday challenges faced by organisations today. Doing things differently, better, quicker and more cost efficiently are all important to innovation in small businesses. More often than not managers see innovation as only the application of new technologies or the carrying out of formal research and development. This reflects one of the main difficulties for innovation in relation to small businesses

These issues often pose challenges for Small and medium sized enterprises and need to be overcome. They must overcome these in order as innovation is essential to strategy and planning. New products and services will need to be strong enough to progress through commercialization processes before entering the market. They do this in the hope that it will strengthen their ability to innovate.

Competition combined with strong demand for a product or service is a major driver of innovation. If intense competition exists in the market, this can also be another determining factor of innovation and productivity. Innovation is mainly new products and services but also includes new business systems, and new methods of management which have a major impact on productivity and growth. With every organisation feeling the economic pinch today innovators are needed now more than ever. Innovation will bring added value and widen the employment base for all organisations.

## **2.2. Developing an Innovative Strategy**

As stated on ([http://www-05.ibm.com/ie/strategy\\_and\\_change/index.html](http://www-05.ibm.com/ie/strategy_and_change/index.html)), in order to develop an innovative strategy there are a number of areas for businesses to focus on:

1. Look at the effectiveness of the current operating models, and processes that are in place already and look at new processes of business innovation using technology such as the six sigma process.
2. It is also very important especially for the small businesses that they try to cut costs as much as they can, and improve productivity. This can be achieved by analyzing current structures and processes in place, and how they can be improved. There is also extra assistance in place for Irish businesses in the form of IBM, who help businesses improve their performance and operations.



### **2.3: Advantages and Disadvantages of Innovation**

(Tidd, Bessant & Pavity, 2008, page 43) outline a number of advantages and disadvantages for small and medium sized enterprises. There are a number of advantages, one being the speed of decision making. With Small and medium sized enterprises not having a huge workforce the speed of decision making will be faster as there is less to take note of in relation to a big organisation. The culture of Small and medium sized enterprises is much focused around the company being successful and there are not usually any culture clashes. Because it is a small organisation communication is easy accessible too so everyone knows what is going on.

The vision of the organisation is very much clear as well and is shared between management and employees as they both know what they have to do to improve the organisation, increase sales, and attract more customers, etc. Because Small and medium sized enterprises are smaller, employees will be less likely to sit back and let the top management keep the business afloat; they will want the organisation to achieve success to remain employed more than anything. This would especially be the case in today's economy.

There are also a number of disadvantages as well with a lack of resources often a problem especially in the case of finance, loans, government and bank support, etc. There may also be a lack of training for some employees and a lack of the necessary skills to do the job. A lot of the time nowadays, employees are trained by the 'on the job experience' which is not as good as formal training. This may result in tasks not being carried out up to standard, and may cause the organisation to lose money, customers, market position.

The long-term strategy of the company needs to be clearly communicated all across the organisation as employees will become less motivated if this is not clearly stated. All organisation member need to know where the business is going, how it plans to get there and what they hope to achieve. A lack of structure on behalf of the

management may also cause this, so brainstorming, planning and implementation, and control are essential. Sufficient resources to carry out duties and activities are also required and must be readily available.

Another major disadvantage is where organisation does not understand the innovation process. Any organisations that see innovation simply in terms of achieving a major 'breakthrough' does not understand the process of innovation. As well as this they often ignore the potential of incremental innovation. Recognizing the relationship between the product itself that the company is offering and the process of innovation is essential too. Tidd, Bessant & Pavity stress the importance of looking at the two together and not treat them separately.

#### **2.4: Types of Innovation:**

Firms across the small business sector who are innovative active take part in a wide number of innovation methods. Some businesses are product innovators only, some are process innovators and the remainder are usually "dual" type innovators i.e. those who carry out both product and process innovation. Product innovative firms are those who introduced a new good or service or significantly improved an existing one. Process innovation is where businesses implemented a new or improved product/service, but also improved the production process, distribution or support for the product/service. ([http://www.forfas.remediaforfas920\\_innovation\\_survey.pdf](http://www.forfas.remediaforfas920_innovation_survey.pdf))

There are also other types of innovation as well, with marketing and organizational innovation essential to small business success as well. Marketing and improving marketing innovation is key to every small business. Implementing new or significant sales methods is very valuable in relation to boosting the sales of their good/service or when entering new markets, etc. Organisational innovation is when new changes in the firm's structure or management methods are put in place. This is done so usually to improve the firm's use of knowledge, the quality of goods and

services or the efficiency of work flows.

## **2.5: The role of R & D in Innovation**

Research & development is a very important aspect of Innovative businesses today where methods of production and faster and more reliable research methods exist. as well as this the level of competition is increasing and the need for keeping track of your competitors moves is of grave importance because markets nowadays change in such a rapid pace, there are different demands in different markets for different customers.

Revising their product design and their current range of products is very much necessary due to the continuous technology changes as well as other competitors changing preferences of customers. If the development of technology is driven then it is only a matter of selling what is possible produce and make. The main disadvantage associated with R & D is that it is difficult to determine whether it will work out to your advantage or not.

(Roper & Dundas, 1998, Page 13) believe that organizations don not always carry out R & D as a result of for main limitations. Research and development is an input to the innovation process, and is just one of several potential sources to innovation for the business. Ares such as technology, customers, and suppliers are seen as just as important. R & D may also vary widely between businesses, and may be underestimated at times and deemed unnecessary.

It has been shown in the past from research that companies that have a consistent and reliable R & D plan in place will generally perform better than those with an irregular plan or with no R & D plan in place at all, so it is essential for all companies to have one in place. This is one of the reasons that government

organisations will encourage R & D in the market.

It is not just the invention of the new idea the organisation is interested in, but that the idea is brought to the market and put in practice. They do this in the hope of improving the business and adding value to it. Innovation in businesses can be radical or incremental and is set upon day to day expertise of management and employees and what their knowledge of their customers and target markets are.

Radical innovation involves completely new ideas. Incremental innovation is where an existing product or service is adapted or modified and the organisation can use it to their advantage. Table 2.3.1 shows the breakdown of radical and incremental Innovation (Tidd & Bessant, 2001)

Types of Innovation	Incremental- 'do better'	Radical- 'do different'
Product/service offering	Improved version of an existing product/service, customization, added features	Online advertising
Process: ways of creating and delivering product/service	Low cost product	Different process route
Position: target market	Enter new market segments: specialized product/service	Enter new low cost markets via low cots service

## **2.6: Innovation and Small and medium sized enterprises:**

Small and medium sized enterprises: are declared as been a legal entity with less than 250 employees, have an annual turnover of 50 million with less than 25% owned by other enterprises.

Small and medium sized enterprises in Ireland face increasing competition not only the pressure to increase sales but for the technical know-how and necessary skills to be at a specific standard. Competitiveness for all organisations depends crucially on the speed with which the new products can be brought to the marketplace and the new methods put in place to ensure that there is new cost saving improvements made. As noted on ([http://www.forfas.ie/media/brf06\\_small\\_firms\\_association.pdf](http://www.forfas.ie/media/brf06_small_firms_association.pdf)), competitiveness in small businesses is key to job creation and development as well.

Innovation-the ability to reap the rewards of achievement requires much more than the ability to turn a new idea into a profitable and fully functional product/service. Ready supplies of finance and business skills and know-how are also required in abundance. Basically what is needed is a dynamic, self-sustaining culture of innovation. Critical to this are the small and medium size enterprises which have in recent years proved that they are the engines of economic growth in Ireland, and the main source of new employment.

Quality and innovation are two keys aspects of management today, and have been applied in mainly the private sector in the past with great success. Small and medium sized enterprises must also look at how they can use these two aspects to their advantage. It is important for Small and medium sized enterprises to look at the possibilities of how they can use quality and innovation in the organisation improvement methods, and how a best practice approach to quality and innovation can be cautiously suggested and introduced.

Leadership is also of central importance to all organisations seeking to develop innovation throughout their company. In Small and medium sized enterprises developing innovation, leadership is especially vital for success for a number of reasons. (Bertrand, Bellun, Graham & Whittington, 1996, page 55) state that for most Small and medium sized enterprises the manager has a larger influence effect when compared with the larger organisations. Because of this the leader or manager's vision and innovative drive must be focused on innovation if it is to be successfully implemented in the organisation. The organisation can then make rapid decisions when the leadership is dynamic and focused.

Through trying to achieve an organisational culture the central point is the role of the employees to ensure that the culture created is continually acknowledge. Small and medium sized enterprises must weigh up their basic lack of people resources against their increased flexibility. Additionally the SME leaders must go beyond autocratic control and facilitate empowerment amongst the entire workforce and achieve two-way communication. Innovative ideas from employees must be backed by planning and resource allocation as well as an appropriate time frame to work with.

Knowledge and information management in Small and medium sized enterprises has the potential to be a method for innovation within organisations. Voss (1998) comments on (<http://www.familybusinesscentre.com/downloads/report1.pdf>) and considers that close proximity and knowledge of the customer is a key factor in innovation for Small and medium sized enterprises. This knowledge will help inform Small and medium sized enterprises about potential product or service changes in their respective markets.

When this knowledge is linked to that of rapid decision making, then small and medium sized enterprises can make beneficial innovative decisions in a relatively short space of time. One of the major decisions that Small and medium sized enterprises will have to make is in relation to the need for new product development. This will lead to the differentiation of the market which is a major opportunity for

innovative Small and medium sized enterprises in the market they are competing in.

They must also be able to use customer base knowledge to develop innovative products and services, through a customer-pull approach. Small and medium sized enterprises must become closer to their customers and ensure they are making innovative use of their information. Small and medium sized enterprises seem to have very little choice to foster closer links with very a few customers due to their obvious lack of resources.

## **2.7: Innovation and Entrepreneurship**

Entrepreneurial activity in organisations can help the business target a niche market that they can be successful in as well as fill consumer's needs. Sources of entrepreneurial knowledge in Small and medium sized enterprises can be classified in a number of ways such as changes in industry structure, change in the perceptions of their customers and demographics. There must be an analysis of all these opportunities receptively to new opportunities.

(Garavan, Cinneie, Hynes & Walsh, 1997), part 1, page 1) state that in order for entrepreneurial activity and innovation to succeed in businesses their needs to be sufficient managerial strategies in place for the new venture as well as the existing business. All organisations must acquire entrepreneurial competence to keep up with industry change in their respective markets and in the economy itself. This is one of the main reasons why entrepreneurial management is essential. There also must be an examination of the practices and policies that all entrepreneurial managers need to follow in the marketplace, these will be essential to the success of the organisation in their specific market.

When implementing strategies for entrepreneurial activity, all organisations must aim for leadership and/ or dominance of a new or existing market. In addition to this they must find and occupy a specialized niche for the company to take advantage of. The organisation must also be able to respond to the changing economic characteristics that a product may have as well as the market or industry that it is located in. The first step to becoming entrepreneurial is to make innovation and entrepreneurship a normal everyday part of business.

The process of innovation, entrepreneurship and business start-ups in the small business sector entails great diversity in relation to objectives and aims. Some may just want comfortable living while others will push really hard to grow the business to its full potential.

Innovation should be an everyday practice for employees and management. Growing innovation in an organisation has its challenges. To make innovation work and be successful all organisations need to link each element of the innovative process together. Diagram 2.5.1 below shows the process of innovation and how it is broken down.



Diagram 2.5.1 shows the system process of innovation

**Source:** <http://www.forfas.ie/icsti/statements/rti/images/rti.gif>



## **2.8: Social Partnership and Innovation**

The role of social partnership is very important to every innovative organisation. These partnerships provide openings in the markets for different businesses. Innovation in an organisation is a social partnership initiative that mainly focuses on stimulating change in the workplace. This in turn leads to a more efficient and innovative workforce. The national workplace strategy is one strategy that has been put in place to help this. They illustrate that Ireland's on-going transition to a more dynamic and high skilled economy will be aided by change and innovation among employees and management in the workplace.

(Longnecker, Moore & Petty, 2005, page 173) outline five main strategies outlined in the national workplace strategy:

1: Commitment to workplace innovation: This involves getting employees and other members of the workforce to embrace innovation and to do it as part of their everyday job. This will help employees to become more creative and will help encourage innovation in their organisation.

2: Developing a capacity for change: companies that do not respond to change will fall behind those who are embracing it in their organisation. Change is one of the most important elements for innovation to be successful in business.

3: Developing future skills: The future development of skills among employees and products or services is what the organisation will need to do to ensure that the business has a future. Developing the future of the business is especially important for small businesses that have a limited workforce

4: Gaining access to opportunities: being able to identify an opening in the market

attracting more first time buyers. This will help to rejuvenate growth and to differentiate products. Successful product introductions can allow companies to strengthen their market position.

As noted on (<http://www.enotes.com/small-business-encyclopedia/innovation>), Innovation is the basic driving force behind entrepreneurship and the creation of small businesses in every market. When a business comes up with an idea that has not previously been considered, they may be able to turn that idea into a successful business project. Also if done successfully, marketing innovation can spark a burst of buyer's interest and can create demand for a product or service, increase the differentiated products and will help lower costs for the businesses.

([http://download.intuit.com/http.intuit.com/intuit/futureofsmallbusiness/intuit\\_fosb\\_report\\_march\\_2009.pdf.pdf](http://download.intuit.com/http.intuit.com/intuit/futureofsmallbusiness/intuit_fosb_report_march_2009.pdf.pdf)) notes that the drivers of small business innovation in Ireland fall into three main categories:

1. Necessity: small business owners operate in competitive and changing markets. Pressures to meet demands, reduce costs, pay wages, provide customer value and respond to competitors actions are endless. Competition is always a major threat and resources more often than not limited in a small business. Small business success hinges on making constant changes, acknowledging the need to be innovative and improve the business.
2. Opportunity: Entrepreneurs are opportunistic by nature and small businesses are constantly looking for new ways to make money, save time, improve processes and enhance customer value. Because they are so close to their customers, they are at a major advantage. They are well positioned to see and pursue new opportunities and take advantage for them.
3. Integrity: many small businesses spring from the desire to be successful and to make a living for themselves. Small business innovative both reactively

and proactively. They innovate reactively in response to customer, markets, and competition. But they are also proactive innovators, scanning for new business opportunities. They blend these together in the hope sometimes of creating something bigger and better than what already exists.

### **2.10: Why Innovation is critical to businesses**

Innovation in all Small and medium sized enterprises is critical to the competitive advantage that they hope to achieve in their target markets. Innovation in an organisation is the only sustainable advantage competitive advantage. Creativity and innovation are both often identical in relation to innovation in an organisation. Innovation is the transformation of creative and well thought out ideas that come from inside a firm, whether it is from employees or senior management. The key understands that even the best ideas are meaningless until they are actually implemented by an organisation.

Given the importance of innovation in all organisations today, it is essential that companies make their processes flexible so that it they can apply it numerous projects. ([http://findarticles.com/p/articles/mi\\_m0KJl/is\\_1\\_117/ai\\_n9485217/](http://findarticles.com/p/articles/mi_m0KJl/is_1_117/ai_n9485217/)). Effective and efficient innovation requires the joint efforts of a team of people and not just one person. Managing the interaction between group members is essential to ensure that a profitable result for the organisation is achieved. Knowledge, expertise and risk taking must all be carefully managed and can assure the execution of the innovation activity.

Innovation in Small and medium sized enterprises has always been related to technology, products and services offered and improving these areas for the benefit of the customer. Small and medium sized enterprises also try to optimise their product features to develop and use relevant technologies to help them achieve a

competitive advantage. Achieving a competitive advantage has changed in many ways over the last number of years as there is an ease of entry to most markets, as well as a wide range of technology and expertise know-how across all organisations. This is all in the sake for increasing customer satisfaction and demands.

It is also very important for Small and medium sized enterprises to look for the differentiating factors of their products or service that they offer. Product innovation is more important as the development of new products provides the key to the firm's ability to gain new customers, enter new markets and increase their annual revenue. The main aim for Small and medium sized enterprises in a specific market are to produce and implement an innovative product into the market.

### **2.11: Achieving an Innovative process**

To achieve success in managing innovation, an organisation must firstly acknowledge that innovation is a process. In addition to this a method must be identified by the organisation to manage that process and the people and resources that are involved. Integrating the right people with the right skills into a proven process results in innovation. All organisation must also have the knowledge and expertise required to perform these innovative tasks as well though. There are four main steps (outlined in the Harvard business essentials, 2003, page 62) that help an organisation achieve become innovative:

#### Step 1: creating

In this are ideas and concepts are generated and talk through. Fresh ideas are usually generated here. The creating step is characterized by the lack of constraints regarding boundaries. In order to be successful in this area the organisation needs to look at the big picture, and what there aims are in the long-run. Organisations who are successful in the creating step often demonstrate imitating action taking methods. The initiating method involves been more risk adverse

### Step 2: Advancing

In this step the organisation will look at the ideas generated in the creation step and will look to move forward. These ideas are promoted using various methods used before and are tried and tested. A plan for implementation is then set up. Employees who are good at this role will prefer ideas that are familiar but are willing to take risks in order to achieve their objectives. Additionally employees in this role will generally be sceptical of new ideas, and focus strongly on achieving objectives efficiently.

### Step 3: Refining

The refining step is the third stage of the process. Concepts are challenged in this stage. A logical process of analysis is used to look for flaws with the innovative ideas generated previously. The refining process will also look at the implementation plans for the product/service and suggest ways to solve these flaws. The refiner is generally a conceptual thinker with an adopting action taking method. People in this role usually always have contingency plans in place as back up and like to control the process.

### Step 4: Implementation

The last step of the process is implementation process. This step involves the concepts and implements them according to the plan developed in the advancing step. The focus here is mainly on an orderly implementation that will achieve a high quality outcome for the organisation eventually. Executors in this role will adopt action thinking methods as well as pay great attention to the small details. They are also very cautious with new approaches and are only mainly concerned with the latter part of the innovation process and not the start.

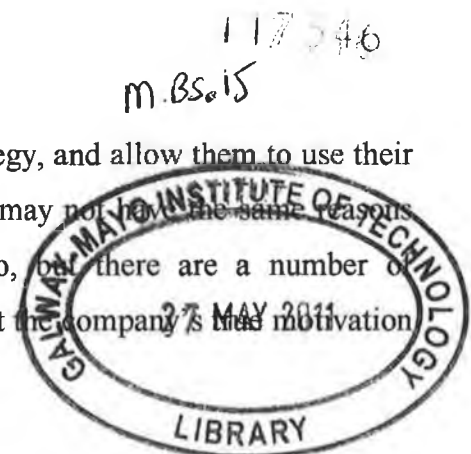
Innovative organisations must eliminate uncompromising ideas quickly before they use up their resources. If an organisation can quickly kill off ideas that are not going to be successful, it results in more resources been available for other areas. Product managers allot of the time will use the 'idea funnel'. The idea funnel looks at a number of important issues and cuts them, down so that only the best ideas are brought forward to be further developed.

## 2.12: Innovation in An organisation

To begin the journey of developing an innovative strategy, it's also critical to objectively evaluate a business's current situation and develop a benchmark for what innovation really means for the business. The organisation will need to look at a number of areas such as the motivation in the company to develop an innovative process. The organisation will also need to look at how they have done this in the past, what its strengths are and how the employees will react to the changes, and what cultural impacts it will have for the organisation as a whole.

(Von Stomm, 2003, page 309) outline a number of areas that the organisation will need to look at. One aspect that is essential to an organisation becoming innovative is the experience that they will bring. They will need to analyse results previous and see what worked well and did not. The role of management is also very important to see how they responded to difficulties and how they got over them. To aid this, the organisation should try and focus on its strengths that it can use, whether it is technology or expertise in a specific area.

This will help them build a foundation for their strategy, and allow them to use their specific assets. Small and medium sized enterprises may not be the same reasons to be constantly innovative as the larger ones do, but there are a number of significant similarities. The key is to understand what the company's motivation and needs are for pursuing the chosen strategy,



How they are going to achieve it and what benefits are there for the customers that were not there previous, and the organisation as a whole.

Understanding a company's motivation to develop an innovative strategy and process is critical before evaluating possible options. Companies are usually motivated by a number of reasons according to (Bertrand, Bellun, Graham, & Whittington, 1996, page 55):

- Crisis in the organisation: profits are down, markets are rapidly changing, and customers are more demanding and are willing to shop around.
- Evolution: the organisation has realised that innovation is a process that must be managed to be effective
- Staying ahead of the rest: the company is a leader in the markets it serves and is profitable and plans to stay ahead of the rest.

There are a number of different ways that organisations can approach innovation which often seems to depend on two fundamental starting points: the people route or the process route. By using the people route some organisations will start by introducing specific processes and innovative roles to their organisation. These processes are generally people-based approaches companies used to introduce innovation in their company and also will identify what they are hoping to achieve through this structure.

Companies following the process route will start their innovative journey with the introduction of a formalised innovation process. This basically is the introduction of a specific process to generate and manage idea. Only very few small and medium sized enterprises will make a holistic approach that combines and goes further than the people or process route in order to be innovative.

Each approach methods has both it s merits and issues. The choice that the company will make will generally depend on its circumstances.

When outlining goals or ambitions for a small business, the company must firstly look at their current situation. They need to identify their strengths' and weaknesses' and what areas they need to improve on. They also need to look at the industry they are involved in as a whole.

### **2.13: The Importance of an Innovative Culture**

To create an innovative culture in an organisation, all members must understand that creating the culture is not enough. To promote innovation in a business, management should strongly commitment to a number of different practices, and embed them in the culture. This can be achieved by simply training managers in these specific areas and setting up a reward system for those who implement them successfully. (Von Stamm, 2003, page 474) outline practises that managers can carry out are:

1. When selecting the most promising innovators to set about becoming innovative, much senior management should select most of the idea generators and provide them with the necessary resources. It is up to the managers then to ensure that promote and drive the process among employees.
2. The creation of 'buffer zones' for the most innovative in the organisation can help innovation grow as well. This is where the employees are protected from other distractions in the organisation; eliminate the pressures of others, as well as not getting caught up in other jobs that could sidetrack the creative process. It will also ensure that the sufficient resources are readily available for them to use.



3. Resisting the temptation to look for results quickly is essential as well. A team can develop solutions or recommendations very easily but they might not be of a sufficient standard. Results that are hasty can be full of mistakes and information which may not be correct and will be of no use to the organisation. To build a culture that will encourage innovation, the creative process needs to be implemented correctly.
  
4. It is also essential that management commit to driving the best ideas right through to the implementation stage of the process. Innovative people are those who will work in small groups or indeed alone. But to ensure the process will work, management must have the ability to work in a process that will get others to adapt to their way of thinking. Leaders who want to encourage the creative process must also be sure to build talent driven, positive cultures that will place an emphasis on learning.

Culture in organisation consists of patterns and the concept of sociability. Sociability is in essence the friendliness of the staff towards each other. This would suggest that people who generally enjoy each other's company and enjoy working together are more creative and productive.

To survive and be able to survive in a competitive economic environment, it is generally known that small businesses need to build a culture of partnership-led change and innovation, driven by new policies and procedures that can tap into the experience, skills and knowledge of employers and their employees as well. When embracing a commitment to workplace innovation, it is important to allow a change in traditional behaviours, attitudes and mindsets of those in the business. While such a cultural shift is testing, it has the potential to generate hugely positive outcomes for the business as a whole. (See Appendix D)

## 2.14: Conclusion

Innovation is the ability to see opportunities, and take advantage of them when they arise. In saying this innovation is not just about opening new markets, it can also offer new ways to benefit in existing ones and serve customers more efficiently.

What most organisations have in common is that their success both in the present and in future markets hinges on innovation and how well they apply it to their organisation. It is about how the business can assemble innovation and experience to create a better product offering. (Tidd & Bessant, 2008, page 11 shows two examples of strategic advantages of timing and having a broad range of products)

Mechanism	Strategic Advantage	Examples
Timing	First mover	Amazon
Extend range of products / services	Improve quality	Japanese car manufacturing more emphasis on quality

Table 2.11.1 shows strategic advantages through innovation:

In the next section the author will discuss the role of small and medium sized enterprises in the Irish economy, outlining the issues they face and how they strive to constantly being competitive and responding to change.

## **Small and Medium-Sized Enterprises**

### **2.15: Introduction**

A small and medium sized enterprise differs slightly from a larger corporation. A small enterprise is one that has no more than fifty employees in the workplace and an annual balance sheet of no more than €10 million. A medium sized enterprise is one that employs no more than 250 employees and has an annual balance sheet totalling €43 million. Ireland has a population of around four and a half million people, with two million in employment. Of this nearly 300,000 people work in sectors such as agriculture, government departments and the public sector.

The rest of the enterprise sector comprises of areas such as manufacturing, construction hotels and restaurants and the self employed. Given the size of these statistics, it is essential that the Small and medium sized enterprises sector is looked after for the sake of the Irish economy in the months, years and decades to come. The Irish economy is today is in a state of recession, as domestic demand becomes the main source of economic growth, rather than the external side of the economy.

As the growth in the construction sector has diminished, it is important that other sectors such as those in the SME sector become a new source of growth for the economy. As stated on ([http://www.business2000.ie/pdf/pdf\\_10/aib\\_10th.pdf](http://www.business2000.ie/pdf/pdf_10/aib_10th.pdf)), the success of new start-up's businesses is also of grave importance to the economy. There are already 235,000 Irish Small and medium sized enterprises with the average rate of start up are averaging 15,000 per annum. There are expected to be 275,000 Small and medium sized enterprises in Ireland by the year ending 2010.

## **2.16: Managing small and medium sized enterprises:**

There are a number of issues to be taken into account when it comes to managing and controlling small and medium sized enterprises activities. It is imperative that firstly objectives are established, and they must be definite, measurable and attainable. Management by objectives is a goal or result-oriented method of management that helps organisations to outline goals, determine how these goals are going to be achieved, and appraises results on pre-determined results. The alternative to managing by objectives is to manage without them. This can result in a lack of coordination and waste of resources.

(Hollingworth & Hand, 1979, page 109) believe a lack of planning in an organisation can also be defined as one of the major causes of failure in small businesses. Planning is critical to in the smaller business as they may lack extensive resources. Some managers may argue that they do not have time to plan. Instead they manage by crisis, basically dealing with the problem as it occurs. Small businesses have a limited amount of time and as the business expands, the resources get smaller and need to be added to. This is why it is essential that planning becomes a habit in every small business, and it is carried out sufficiently.

Forecasting is an important element of the planning stage as it provides the small business owner with information regarding the resources required how much they will need, when they will need it and how much it is going to cost. For a new firm just after setting up, forecasting is of no use to them as they have no past figures to look at. Every avenue of data collection should be used in this case to gather the information needed. The cost of gathering the information needed is far exceeded by the benefits it can provide the business in the planning stage.

Strategy formulation results from the planning process and is another important step for the business to take to achieve goals and objectives. By having a strategy in place, it means that the business can implement the various objectives of the plan

previously set out. The strategy must be compatible with its resources. A firm's strategy must constantly be evaluated in terms of its owner's objectives and the long-term objectives and vision of the business.

The planning stage is essential to all small businesses both new and old especially. When plans are formulated, objectives set out, and time frame established the business must then ensure to attain the objectives. When the time frames have been set out it is important to ensure the planning stage is controlled well. One way of determining whether or not the process was a success is to compare the projected results with the results that were actually achieved.

#### **2.17: Issues facing the SME sector in Ireland**

There are a number of issues facing Small and medium sized enterprises and their respective bodies. They can be classified into three main areas which are the cost of doing business, accessing financial resources, and regulatory problems. The rising cost of running, maintaining and doing business in Ireland in this era has affected all organisations from the larger corporations to the small and medium sized enterprises (Allen, 1999, page 90)

Unfortunately the larger organisations are able to handle these costs as they have generated more than enough revenue annually to pay it. This is not the case for the small and medium sized businesses. Charges such as development charges are just one example of higher costs for an organisation. Rising labour costs, energy and waste disposal costs are also affecting Small and medium sized enterprises. Lack of access and granting of finance remains a major problem for Small and medium sized enterprises and can very much emerge as a key gap in the market when looking to becoming innovative.

Many of the major organisations in Ireland and in some cases Europe seek access to capital in the form of bank debt. This can be difficult to source and may be inappropriate for the business in developing further down the line especially in looking to engage in any form of research for the company. It is especially inappropriate for Small and medium sized enterprises. Venture capital is one area for Small and medium sized enterprises to obtain finance, but the majority again perceive difficulties in obtaining this capital for expansion in the organisation.

(<http://www.finance.gov.ie/documents/publications/tsg/tsg2007/6.14c.pdf>) analysis regulatory problems as another issue facing Small and medium sized enterprises where as Ireland is ranked high up internationally in terms of the ease of doing business, the burden of regulatory compliance is not spread evenly among the larger corporations and the Small and medium sized enterprises. These compliance fall as the size of the organisation increases and that the inconsistent costs involved is the main issue concerning businesses in the Small and medium sized enterprises sector. It is not just this area that has a major impact on the SME sector. They also face costs in VAT and corporation tax as well as interest payments.

Growth is a natural extension of all small and medium sized enterprises and business start up's. The organisation's choice to grow and expand innovation depends on how well the business is growing, how attractive the market is. If these two factors are positive then the business will improve its chances of surviving in the long-term.

### **2.18: Responsibilities of the Irish government in the SME sector**

The Irish government has set about putting in place a number of initiatives that will help with areas such as funding for the SME sector in Ireland for the foreseeable future. There are several government bodies that provide support and aid to organisations in the SME sector. An example of this would be Enterprise Ireland.

Enterprise Ireland is the main organisation that is in charge with supporting indigenous companies in Ireland. It also has a number of schemes aimed at helping them develop into a well known and profitable organisation.

Enterprise Ireland have encourages small businesses to become innovative by setting up a program called the “workplace innovation fund”. Workplace innovation is about new ways of doing everyday things in the workplace, from employee relations and human resource management to the organisation of work and working practices. (<http://www.ncpp.ie/dynamic/File/WIF%20Brochure%202009%20Rev.pdf>).

Improving the level of workplace innovation is regarded as a critical component in building and maintaining a high performance, high quality workplace. Promoting a strong value system and culture of employee involvement all across the organisation is important to develop more innovative approaches to the way their workplace is organised and managed. (See appendix C)

The importance of innovation in a business has been similarly recognised in the strategies of Irish national agencies such as IDA Ireland and Enterprise Ireland. IDA Ireland’s strategy for attracting foreign direct investment has focused on its role in developing Ireland as knowledge based economy. As part of this strategy IDA Ireland provides a number of services to client companies that support their investment in R&D and innovation in Ireland. This includes introducing potential investors to local businesses government, service providers who are in the small business sector.

As well as this, the introduction of specific innovative supports such as research grants. These may be used to help businesses develop new services or new business models particularly where this involves collaboration with Irish universities or Institutes. In addition, IDA Ireland also works with niche companies and innovators who have a unique product or service to offer

<http://www.mirc.ie/mwep/documents/EIFinancialSupport.pdf> outlines two schemes that Enterprise Ireland has put in place to help Small and medium sized enterprises with funding for their organisations:

Productivity Improvement Fund:

- Main aim is to improve the competitiveness of the organisation
- Invest to try and improve areas such as technology, and training.
- Maximum grant for capital and technology acquisition is €200,000; whereas the maximum amount for training is €150,000.

Research, Technology and Innovation (RTI) Scheme:

- Accelerate R & D activity in the organisation
- Encourage activity among employees
- Organisations can receive funding from any amounts up to €650,000

County Enterprise boards (CEBs) provide advice, training and support to small and medium sized enterprises that have less than ten employees. There are a number of various different types of financial supports available for these companies which include feasibility study grants to help those in the organisation. These amounts can differ from anything up to a total of €6,350. Capital grants maximum goes up to €75,000 and also employment grants which can reach €7,500 per employee in an organisation. This may be essential for organisations especially with a small number of employees that they are trained appropriately and the funding is available.



Enterprise Ireland also provide venture capital for Small and medium sized enterprises and is specifically targeted towards the early stages of development, and who will require small investment amounts ( less than €500,000), have a greater regional perspective and are currently located in sectors that are difficult to finance. This scheme has recently been expanded by enterprise Ireland in May of 2006. They provide funding for Small and medium sized enterprises in the start-up' stage, both in the early stage and the development stage as well.

The business expansion scheme (BES) which is described as a state aid, allows investors to obtain income tax relief on investments made in a specific company. There is no tax relief for the company in receipt of the scheme. The whole agenda is to try and attract investors to the SME sector. The risk does not seem to be a great with this scheme in place as there is something for the investors to fall back on. A company can receive up to a maximum of €1 million in BES funding.

Under the national development plan for Ireland in the future, the Irish government has planned to spend €2.8 billion on innovation from 2006-2013 with the majority of this funding to be spent on strategy for scientific technology and innovation (SSTI). The main aims of this project are to bring Ireland's R & D performance onto par with the leading E.U countries. It is clear from the policy has numerous areas where they have not created strategies to drive services innovation in Ireland.

### **2.18.1: Government Strategies**

These policies are implemented by a wide range of bodies (some listed on previous page) who have ownership of a particular area. There are also a number of bodies with a cross border focus. Examples of these are Invest N.I, and Intertrade Ireland. As well as the public sector organisations,

There is a large range of funding bodies such as business innovation centres, innovation relay centres, national competitiveness councils, expert group on future skills needed, etc. In the current economic state of Ireland it will be interesting to see whether they will have a direct influence on government policies. Table 3.3.2 below shows a summary of the government policies on innovation:

(<http://www.twospiremarketing.com/downloads/innovation.pdf>)

<b>Government strategies</b>	<b>Strategies</b>	<b>Programmes</b>
<i>Knowledge creation</i>	-Enhance academic research -Think international -Establish graduate schools	-Investigator programmes -Capability centres
<i>Knowledge transfer</i>	-Support for technology Funding for Small and medium sized enterprises	-R & D programmes -Management schemes -Partnership initiatives
<i>Skills development</i>	-National qualifications network	-Leadership 4 growth
<i>Clusters and gateways</i>	-Stimulate support for enterprises	-Gateway innovation fund
<i>Intellectual property Protection</i>	-Legal framework around I.P -Exploit commercial I.P	-I.P assistance scheme
<i>Entrepreneurship</i>	-Provide funding -Provide support and training	-Expansion schemes -Seed capital scheme

Table 3.3.2

## **2.19: The role of the Industrial Development Agency (IDA)**

IDA Ireland is an agency that is responsible for industry development in Ireland. The agency was set up in 1949 and was firstly called the 'Industrial Development Authority'. In 1994 it became the 'Industrial Development Agency' or IDA Ireland.

The reform set up in 1994 made a few slight changes to the previous reform that the IDA felt would benefit these firms in Ireland. The IDA is a government agency, with its main responsibilities been to secure new investment opportunities from businesses overseas: ([http://www.irelandinformationguide.com/IDA Ireland](http://www.irelandinformationguide.com/IDA_Ireland))

Sectors such as manufacturing, and service, and international trading are the two main sectors for the IDA. It also tries to encourage existing investors in the Irish businesses to expand or develop their businesses further. The promotion of indigenous firms is now the responsible of Enterprise Ireland. Other policy matters are dealt with by Forfas, where as the agency is now responsible to the minister for enterprise, trade and employment in the Irish government. The agency is responsible for the development and promotion of foreign industry and enterprise activity in Ireland.

This can be done basically by offering incentives. Examples of these would be in relation to tax reduction and offering lower rates of tax, grants and buildings where the organisation can carry out their business. Some may have argued that in the last decade, the IDA has failed to introduce enough research and value added companies into the Irish sector, high skills industries are critical to the future development of the Irish economy especially in the SME sector.

The IDA has been successful in sustaining the momentum of growth in the information and technology sector especially over the last number of years. It has established Ireland as the leading location in the E.U for mobile investment in sectors such as software, and electronics. The IDA's stated objectives for the future include contributing to regional development and trying to achieve an increase in the quality of jobs been created.

## **2.20: The Future strategic focus of the IDA:**

On the 3<sup>rd</sup> of March 2010, the IDA launched 'horizon 2020' which is a strategic proposal for attracting foreign direct investment (FDI) into Ireland in the decade to come. The input of FDI is essential to the continued growth and success of Small and medium sized enterprises and other businesses in Ireland today. These FDI companies will create employment for thousands of people both for the employees of the investing firms and the firms that provide them with goods and services. These investments help to rejuvenate the SME sector in Ireland, as well as help improve employment levels in the sector

Continuous attraction of FDI into Ireland will help to ensure that Ireland's current economic recovery will be improved, and will help transform Ireland in securing further FDI here as well. This 'horizon 2020' scheme recognizes that FDI in Ireland will acknowledge the challenges that exist and will create opportunities for businesses. It is essential for the SME sector to continuously adapt so they can take advantage of these opportunities when they arise. This will help to secure thousands of investments, which in turn will increase demand and create more high quality jobs.

Ireland's current Position in relation to FDI is as follows:

<http://www.idaireland.com/news-media/press-releases/tanaiste-launches-ida-ire>

- Number 8 in the top 10 in ICT
  
- Number 8 in the top ten Pharmaceutical sector
  
- Number 15 in the top 20 in medical devices

- More than 50% of the world's leading financial services firms.

'Horizon 2020' has set out a number of objectives of what is needed to improve Ireland's future success. They have outlined a number of short term goals which they hope will have a major impact on the Irish economy, which also includes a specific target for the creation of more jobs which are as follows:

#### Investment targets 2010-2014

- 105,000 new jobs created
- 640 investments
- 50% investments located outside of the two major cities, Dublin and Cork
- Annual expenditure in excess of €1.7 billion in R & D and Innovation by 2014.

The role of the IDA also entails having to transform the IDA to serve as a channel for change in the Irish sector. Changes will include how small and medium sized enterprises and other businesses operate and transform in the future as well as changing how the IDA works with outside corporations serving the Irish market. It is essential that there is a constant drive of change to create value for investors in the Irish economy. Without this the economy will not provide the opportunities needed. The IDA believes that success of this strategy depends on the level of collaboration from all stakeholders in the Irish economy to constantly adapt.

## **2.21: Enhancing the competitiveness of Small and medium sized enterprises through Innovation:**

“It’s not the strongest that survive, nor the most intelligent, but the ones who are most responsive to change” – Charles Darwin

Innovation in Small and medium sized enterprises today involves any new development in firms whether it is big or small. It can be any new method of management or doing business that the firm believes will seek them a return. Examples of these would be creating or re-engineering products or services to create more value for the customer, meeting new market demands or the demands of a specific customer, introducing new productivity methods, or putting new management systems to help employees improve performance.

One of the most fascinating aspects of innovation today is the pace of change in the products and services of organisations. This is not just the case in Small and medium sized enterprises but in the larger corporations too. Innovation is an activity that is constant as products and services can change and evolve over night. One of the most obvious examples of this would be the decline of the product life cycles in the information technology sector. Today there are added growing pressures for all organisations to quickly take action and respond to the very latest developments in their specific sectors. The capability of Small and medium sized enterprises to manage innovation effectively is a critical factor for a firm’s success and their performance in their specific markets in the future.

### **2.21.1: New product development:**

(Kotler: Armstrong: Saunders: Wong, 2002, page 499) believe product innovation encompasses a variety of product development activities such as product improvement, development of entirely new ones and extensions of existing ones that can help the organisation increase the number of products/services the firm can offer. Innovation is defined as an idea, service, product or piece of technology that has been developed and marketed to customers. Innovation allows a process of identifying, creating and delivering new product value, benefits and beliefs that were not offered previously.

All firms need strategies to sustain and grow profits, increase market share and revenue. To ensure this Small and medium sized enterprises should put competitive strategies in place. These strategies are concerned with how a company competes in a particular business and gain a competitive advantage over its rivals. Competition is the main foundation of the success or failure of an organisation. It determines the suitability of an organisation's activities that help it to improve its performance. Examples of these are internal innovations, a consistent culture, and a good implementation of strategies.

(Wickham, 1998 page 192) believes that being constantly able to offer something different will only occur in an organisation if the business is different from others in the market. It is essential that the business has a good internal structure, a good reputation, and an innovative culture. This will allow for the generation of more ideas. Gaining access to assets will also very important, especially if they are asset that your competitors do not have.

## **2.22: Competitive strategies for Small and medium sized enterprises:**

In an increasing competitive environment and with the threat of competition from bigger firms the survival and future growth of Small and medium sized enterprises in Ireland hinges on the formulation of effective strategies.

As stated on (<http://www.scribd.com/doc/20597525/Chapter-3-Three-Generic-Competitive-Strategies-For-SMEs>) there are numerous strategies that can be put in place with the down fall of limited resources in the mindset. When Small and medium sized enterprises try to generate innovative ideas they need to figure out how to compete against the bigger rivals that they face with limited resources. The greater the use of these resources by Small and medium sized enterprises will determine if they achieve a sustainable competitive advantage or not.

If you consider the situation that an SME in Ireland faces, the majority of them are in competition with a national or multinational organisation that have substantial resources to develop markets for consumer products in their target market. As well as this the larger organisations will have better brand image, better methods of production and more expertise in marketing and technology know-how. The lack of resources severely limits the Small and medium sized enterprises attempts to penetrate the market. The best strategy for Small and medium sized enterprises is where they target a specific niche market developing the market before the product itself.

The main reason for this is that it will be easier for the organisation to develop new customers rather than develop new products. In saying this it is essential that Small and medium sized enterprises do not develop huge market development costs. This is because even if they are successful in developing the market, they may be unable to keep it. If the larger corporation see the success that the Small and medium sized enterprises are having in the market, they may be tempted to make an aggressive



move into the specific market and exploit their strengths. This is one of the reason why Small and medium sized enterprises should avoid been the first mover in specific markets.

### **2.22.1: Employing management strategies:**

Employing a knowledge management strategy can be another effective way of becoming a successful organisation in a specific market. There are four main areas to focus on: organisational structure, culture, and management strategies. Small and medium sized enterprises have a major advantage over the larger organisations in relation to organisational structure and size. Small and medium sized enterprises have a smaller and more complex structure, allowing them to execute change all across the organisation. Both vertical and horizontal integration is easily implemented when there are a small number of employees. Larger organisations have a more bureaucratic structure in place, making them slower to respond to organisational change

SME does also have a more focused culture in comparison to the large organisations. The smaller the number of people in an organisation, the more often that goals and beliefs will be shared. Therefore it is easier for Small and medium sized enterprises to employ and implement change in their organisation. It is easier to create a knowledge-sharing culture in an organisation when the management can influence the values and beliefs of employees. This is not as easily done in the larger organisations. This can often be a problem though if the owner does not trust his employees or does not encourage the culture.

In Small and medium sized enterprises the majority of the time the managers are the owners of the business. As a result of this decision making is very centralized as there is less management figures to take into consideration. Decision making in the organisation is allot shorter as well as a result, allowing strategies to get up and running quicker. The advantage for the owners of the Small and medium sized enterprises is that they themselves are essential to driving change in the organisation and encouraging it among employees. Another factor is that the management of Small and medium sized enterprises need to constantly look at every aspect of their business, which gives them less time obviously to focus on the other strategic issues such as time and risks.

### **2.22.2: The Innovation Taskforce**

The Innovation taskforce is a hugely important factor in the Irish economy at the moment, especially in the SME sector. Their role is to try and ensure that Ireland will strive to become one of the best countries in Europe to turn research and knowledge into products and services: the best country to start and grow new companies or the best country to relocate or to expand an existing business in. This in turn may lead to the merger and collaboration of some of the small businesses in Ireland with the larger multinational companies.

Because Ireland is a small, open economy it was very vulnerable the destructive influences that existed. The Irish economy has been predicted to return to growth in the second half of 2010, with employment creation to increase in 2011. Despite the nature of the recession, Ireland still has a number of strength's available to use to their advantage. GDP is almost one-third higher this year than it was in 2000, and employment figures were still around 1.8 million. Ireland also has its well educated workforce and a durable export performance.

In the past number of decades, Ireland has focused on education and innovation to drive success and fuel growth in the Irish economy. The competitiveness of the Irish economy will depend on how well these two factors are implemented. Governments can ultimately support these businesses in all they do but it is up to the businesses themselves to be ambitious and innovative. The creation of products and services to generate more jobs and revenue is what the Irish economy will need to get back on track.

“The Ireland of the future will be a smart, high value, export led economy. It will have some of the world’s leading research-intensive multinationals, a number of which will be Irish-owned. It will have thousands of innovative small and medium enterprises”

*An Taoiseach, Brian Cowen*

Ireland’s vision is that by 2020 the country will be an innovation hub with a large number of innovative companies each having a foothold in the global market. These companies will provide employment in numerous market and different sectors, helping to generate export and tax receipts. In the long-run Ireland is trying to enforce itself as a positive place to invest in and develop new and innovative products and services. The vision of the Irish economy is to create thousands of innovative companies from small and medium sized to large multinationals. This will require the transformation in how Ireland generates jobs and growth.

Ireland future strategic vision encompasses existing companies and sectors that are strong in Ireland today with the ambition to grow and innovate further, helping to create further jobs and profits. It is not just about start-up businesses, it includes

family run businesses, small and medium sized enterprises and multinational companies that have been in existence in Ireland for the last number of years. It is vital that they are supported by an innovative and entrepreneurial public service.

As stated on (<http://www.siliconrepublic.com/news/article/15579/randd/govt-to-act-on-innovation-taskforce-report-taoiseach>) Ireland from its current state, needs to become more cost competitive. This may not be the case. While it is important to be cost competitive new sources of competitive advantage that will help provide sustainable jobs and growth are important too. The major and most important challenge for Ireland is to try and return to the sustainable growth that it experienced prior to the start of the economic downturn. Success in meeting these objectives will require a high level of productivity across the whole of the economy in every sector

The innovation taskforce report (2010) argues that productivity is also essential to the turn-around of the economy. Productivity can be increased by increasing the efficiency with which resources are used to produce existing goods and services. It is imperative for firms and the public service in all sectors of the economy. But the more challenging and effective route for productivity growth is activities such as product and process development, differentiation of products, market segmentation and the economy of scales for firms. These are the central points of innovation and they provide a platform for a more sustainable and less volatile growth performance than say strategies focused on low cost and operating efficiencies.

Ireland badly needs a radical increase in job creation to fuel growth and provide opportunities for those entering the market from schools or colleges. Most jobs in today's economy are not in occupations with high technology content. Job retention and creation will require that all sectors of the economy have the basic core skills and competencies to change the way they work and new processes are adopted across the economy. Given the impact of innovation in the economy Ireland has focused its

attention mainly on how innovation and the strategy of Ireland's economic performance can be increased radically, to counter-act the challenges we face.

Start up activity of businesses in Ireland is currently one of the strongest in the E.U. Enterprise Ireland have already invested in over 70 start-up's last year and will continue to do so to help support the Irish companies internationally. Because Ireland has a small economy, the strategic relationship with companies overseas is now more important than ever to get Ireland back to being innovative, and competitive with attractive sectors.

### **2.23: Sources of opportunities for Small and medium sized enterprises in Innovation**

Firms that systemically practice innovation in their organisation often look for change and carefully evaluate its potential to be a successful product or service. Changes in a specific sector provide the opportunity for innovation to be implemented. For Small and medium sized enterprises there are generally seven sources of opportunities for them to take advantage of when in search of innovation. Four can be found internally in the organisation or in the industry itself (1-4), where as the rest are external (5-7)

1. The unexpected: achieving success or failure from an unexpected event.
2. The incongruity: what happens and what is supposed to happen

3. The inadequacy process: the process is taken for granted but can be improved.
4. Change in the industry: an event that takes everyone by surprise
5. Demographic changes: i.e. changes in population size
6. Change of perception: Economy downturn causing change in perceptions
7. New knowledge; revelations about a new product or service

(Drucker, 1985, page 27) believes whatever else an organisation hopes to achieve, it wants to be profitable, create value for their products, and to satisfy customers. The overall aim of entrepreneurs and businesses is to improve on what already exists in the market or to modify it. When it comes to looking for opportunities and taking advantage of them it is essential for Small and medium sized enterprises to look for opportunities both inside and outside the organisation.

Small and medium sized enterprises should focus on what and how they can be innovative in the present before thinking about future paths. They will also need to consider the financial implications for the company both in the short run and the long run. Knowing what their customers' needs and wants are is also formidable for the organisation as this will help them have a focused strategy in place. For organisations like small and medium sized enterprises the main path is to start small with the aim of becoming market leader as soon as possible.

### **2.23.1: Example 3M**

(Burns, 2010, page 53) gives an example where 3M encourages innovation all across their organisation and aim to promote it at every opportunity. 3M generates a quarter of their annual revenue from production less than five years old. They try to make innovation as part of their organisational culture. They encourage staff to be as innovative as they can. They allow their workforce to spend 15% of their working week trying to become innovative and generating innovative ideas for their organisation.

When an idea is generated they must present their idea to the management board of the company and try to get their idea across to them as best as possible, outlining how they came up with the idea and how the company can benefit from it. If their idea is successful and the idea implemented, they are rewarded. 3M's motto is that failure not rewarded, success is well rewarded.

### **2.24: Conclusion**

Due to the nature of the small businesses in Ireland today, it is essential that they continue to innovative. Success in their organisations in the future will depend on how well promote and implement innovation in their organisation. The risk of an organisation especially a small organisation not been involved in an innovation activity is far greater as the organisation will never develop and may fail.

Regardless of whether it is a large or small business, small and medium sized enterprises have important advantages that allow them to succeed. One is the responsiveness to conditions and market trends. This can be achieved by having a close relationship with their customers. The independence of small and medium sized enterprises also allows them to innovate when the opportunity arises.

(Lambing & Kuehl, 2007, page 12) believe the major problem with the larger organisations is when it comes to implementing change. When the larger firms see the need to change they seem to be dragged down by the constant need to follow procedures and administration controls. Despite of its form, innovation enables small and medium sized enterprises to compete successful in their specific markets. In the next section of the literature review the author will look at the various barriers to innovation that small and medium sized enterprise in Ireland face and how they go about overcoming these barriers.



## **Barriers to Innovation**

### **2.25: Introduction**

Innovators in every organisation face many obstacles in carrying out their daily business. These obstacles may include finance, time constraints or lack of information for example. Gaining a deeper understanding of these barriers and coming up with an appropriate approach to solving them can help to keep innovation in an organisation alive and ensure it is constantly being carried out. This can be whether your organisation is trying to become market leader, create a new market or just do things more efficiently.

Innovation is very difficult and is often liable to fail. Success begins with a careful understanding of what your organisation is trying to achieve, and the barriers that may or may not exist in stopping your organisation from achieving your goals. While some barriers to innovation may be formidable, they do not need to stop your business from carrying out innovation and change. Successful innovators who have that will to succeed at all cost will work their ways around these barriers and get through them (see appendix A)

### **2.26: Challenges facing Small and medium sized enterprises**

In this changed economic environment that Ireland currently faces, there have been a number of different challenges for small businesses to face. Access to finance has more often than not been the major problem. An example of this was printed in the 'Irish Examiner on the 14<sup>th</sup> December 2010 stated that the ISME found that there was a drop in the number of firms requesting finance in the last quarter. There was a survey carried out of 724 where 33% were refused funding in the last three months

(September, October & November 2010) compared to 42% in the previous quarter. Because there is such an uncertainty about finance it is doing untold damage to the economy and to the businesses themselves.

Regulatory problems are another major cause for small business in Ireland today. Businesses are regulated in a variety of ways to ensure that a market protects themselves and other businesses, consumers, and their employees. They also try to ensure compliance with environmental and social responsibilities. The cost of compliance however is significant and is allot higher for the small and medium sized businesses in Ireland than it is for the larger businesses.

Infrastructure has also been hit badly as the growth of the Irish economy over the last ten years has placed huge strains on a number of sectors. Examples of these sectors are communications, transport and social infrastructure. Because of this, it has results in a negative impact on the performance and the growth of businesses in the small and medium sized sector in Ireland.

Management capability: entrepreneurs and the managers of small businesses in Ireland do not place enough emphasis and concern on the development of management capabilities for their businesses. This is mainly because of the cost involved in it and the time it takes as well. It may also be as a result of the training programmes been perceived by managers as not been relevant.

There are also problems for small and medium sized businesses in Ireland in the technological and non-technological sector. Small businesses have much difficulty in getting access to new knowledge and information and exploiting this to the benefit of the business. This knowledge can help them to create innovative products and services.

Entrepreneurship: there is currently no real co-ordinated national approach to encourage or to support entrepreneurship. This is a major problem for the Irish sector. One method of getting over this was suggested in the report of the small business forum and it was to introduce entrepreneurship education at primary and secondary level education. It is somewhat encouraged at secondary level, but it is on a very small scale.

Access to information is another major concern as well. There is not really a primary information resource for small businesses in Ireland to take advantage of and use. They need to be able to get access and be able to use information relating to starting up a business, developing the business and growing it. Readily made information regarding financing, laws and regulations would be of great use as well. (See appendix B)

### **2.27: Managing discontinuous change and innovation**

Discontinuous change and innovation can offer both threats and opportunities for businesses. For the more established businesses it is about being able to spot an emerging opportunity and exploit it. For the new entrants to the market it is the classic entrepreneur's challenge of being able to manage the growth of a business from a bright idea generated. For established players it is the challenge of rejuvenating themselves to allow part of the business to behave as if it were an entrepreneurial start-up.

(Tidd & Bessant, 2007, page 234) argue that the problem sometimes is not that discontinuity happens, but that it is almost a certainty that a problem will arise from somewhere at some time. The organisation must ensure that these problems are tackled early so that they can take advantage of opportunities rather than be threatened by disruptive changes. And for existing players, this raises the question of whether what the business has learned is still the right thing to do under these circumstances.

When dealing with discontinuity it may mean the introduction of a new set of approaches to organize and manage innovation. (E.g.) how a firm makes strategic choices in the face of uncertainty. It may turn into a problem which extends beyond the firms capability. Discontinuous innovation can sometimes be problematic because it may involve building around a different set of partners. Strong ties and close relationships with regular partners are important in enabling a steady stream of continuous improvement. For newly start up businesses this may not be an issue as they set up their organisation from scratch.

(The Harvard business review on innovation, 2001) outlines some areas organisations face with discontinuous innovation can be summarized as follows:

1. What the business needs to do more of and extend?
2. What the business needs to do less of, or stop?
3. What new approaches does the business need to add?

Managers need to assess these questions and how change may affect their business. When managers look to solve a problem in relation to change, they generally try to use their resources available to them to achieve it, both tangible (employees, equipment, etc), and in-tangible (information, suppliers, etc). High quality resources will help an organisation cope with change.

## **2.28: Lack of creativity**

The number of potential barriers to innovation in small businesses is limitless; time pressures, un-supportive management, pessimistic co-workers, rigid company policies and many others. In some cases though many may find that these difficulties are self imposed by the employee themselves. (Zimmerer & Scarborough, 2007, Page 51) believe being logical is a very important part of being creative in an organisation. This is especially the case when it comes to evaluating ideas and implementing them. Focusing too much effort on being logical in the workplace can take away from using intuition, one of the most powerful tools an employee can possess.

A lack of creativity may also be as a result of obeying the same rules and regulations every time. This can take away from the person broadening their knowledge base and being creative, while generating new concepts and ideas. Sometimes though, creativity depends on the person's ability to break the rules so that they can see firsthand some new ways of doing things. Creativity can also be linked to risk taking in business which is one of the key attributions of entrepreneurs.

It is also essential to be constantly impractical when looking to be creative. Imagining answers to 'what if' questions can have a positive affect when looking to be being creative. Not relying on practicality for a while allows the mind to consider the creative solutions that otherwise may never be taken into account. By not taking practicality into account it will allow entrepreneur's especially to consider taking a product or service from one area and place it in a totally new area.

Attitude plays an important role in being creative as well. Having a playful attitude will allow entrepreneurs to reinvent opportunities' and reformulate established ways of doing things. They can learn to try numerous different approaches and discovers what works and what doesn't.

Creativity results when entrepreneurs take what they have learned, evaluate it and collaborate it with other knowledge. It can then be put into practice. This why managers should encourage employees to push the boundaries, so they have a better chance of coming up with something creative.

Becoming overly focused on a certain issue can also cause a lack of creativity. (Harvard business essentials, page 103) define a problem in the workplace as one of 'marketing' or 'production' limits the ability to see how it might be related o other issues. Creative thinkers will tend to be "explorers" searching for ideas outside their area of speciality. Entrepreneurs are famous and well known for asking a question and then going beyond their first answer to explore other possible solutions. In some cases the result may be that they often find business opportunities' by creating ambiguous situations.

Creative people always s tend to realise that being creative and looking to try something new can very easily end in failure. However the difference is they do not see failure as the end. It represents a learning experience on the path to achieving success. Failure is an important part of being creative as it tells entrepreneurs when they need to change their course of action. Entrepreneurship is about the opportunity to fail. Many entrepreneurs will and have failed numerous times, although despite these setbacks they set aside the fear factor and kept trying.

The worst environment for creativity in an organisation is one that is not welcome. Some employees may argue that they should not bother coming up with new ideas as management might shoot them down. Some managers are so bound with the status quo that they have no enthusiasm or drive for anything new or different. Apart from welcoming and encouraging new idea generation in the business, the organisation should view innovation as a normal part of everyday business.

An example of where this is done is in Proctor & Gamble (P&G). P & G think of creativity not as a mysterious gift but as the everyday task of making non observations, and bringing things together that may not normally go together. There is a certain aspect of uncertainty and risk needed for creativity to be implemented. Isolating innovation from the mainstream of the business can produce a cultural side effect.

### **2.28.1: Ways of enhancing organisational creativity**

(Zimmerer & Scarborough, 2007, page 51) believe creativity does not just happen overnight. Entrepreneurs need to establish an environment in which creativity can flourish for themselves and their employees. New ideas are essential for the creativity process to work, and the right company culture can encourage people to develop and cultivate them. Developing a corporate culture that both fosters and rewards creativity is essential.

Ensuring that workers in a business have the freedom and the incentive to be creative is one of the best ways to achieve innovation. Entrepreneurs can also stimulate their own creativity and encourage it among their workers by looking at a number of areas to create a culture of innovation. Entrepreneurs have the responsibility to establish an innovative culture, and setting a creative tone in the mission statement.

Businesses should incorporate creativity and innovation with the company's mission statement and ensure a commitment is made to them. If creativity and innovation are an essential part of the company's success (which they always are), then it should be a natural part of the performance appraisal process.

(*Deakins & Freel, 2009, page 116*) believe that there are five main forces for creativity for a business:

- I. Introduce something new
- II. Open a new market
- III. The conquest of a new source of supply of raw materials
- IV. The creation of a new type of industry organisation

### **2.29: Barriers to Innovation - Small Versus large businesses**

Organisational size effects innovation in areas such as technology, marketing and product development. Some innovation opportunities will require very large resources in order to develop fully. A large organisation will have easier access to funds than the smaller ones and therefore will be able to develop existing opportunities which would be beyond the financial capabilities of smaller firms.



Large businesses insure themselves against the risks involved in areas such as R & D, by pooling their risk over several R & D projects.

The diversification of R & D is often an option normally unavailable for the smaller businesses as they will not have the financial strengths' to do this. Larger businesses will have additional expertise in areas such as marketing, and R & D to help them to exploit and take advantage of the idea. Such a range of expertise is often scarce in smaller firms when compared to the larger ones, which in turn will result in a major disadvantage in promoting innovation and change in their organisation.

Inexperience is often one area that the smaller businesses will fall down in. Inexperience may result in the business failing to capture all the potential that the market has to offer. Even if the business manages to successfully innovate their products or service and launch it, there is no guarantee that it will be successful. This again will reduce the incentive for the business engaging in such activity due to the risk, and will be too costly, and take up too much time. (Jones & Tilley, Page 24) have outlined numerous advantages and disadvantages for small versus large firms:

<u>Advantages</u>	<u>Disadvantages</u>
Small firms have generally faster reactions to changes in the market	Larger firms tend to always follow rules, and regulations, afraid to think outside the box
Better internal communication in a small firm	Takes longer to communicate to all involved in a larger organisation
Some regulations less vigorous for Small firms	Patent system for larger firms is more complex and costly
Small firms more flexible for collaboration	Larger firms may not want to share power

## **2.30: Barriers to Growth in small and medium sized enterprises**

When looking to launch a new product or service, an entrepreneur will face numerous challenges along the way that he or she will have to overcome in order to launch the product/service, and grow the business successfully. There are various barriers to the growth of small and medium sized businesses. (*Jones & Tilley, page 3*) classify these as internal and external barriers to innovation:

### **Internal barriers**

1. Finance and Funding: Gaining access and approval of finance is one of the biggest problems for small and medium sized enterprises. One of the main reasons for this may be that they have very little to use as collateral in comparison to the bigger firms. There are a number of difficulties in raising finance for small businesses:
  - Access to market, and market structure: Small and medium sized enterprises especially in Ireland are found in sectors such as wholesaling, retailing, and manufacturing. All these various sectors have low barriers to entry, which makes it easier for competition to enter the industry and to compete. This will increase overall competition and will lower profit intake.
  - Low Profitability: many of the small businesses in Ireland achieve much lower profits annually than the bigger firms. Therefore they find it very difficult to generate any level of capital that they need for expanding their products, market research or investing more in R & D for example.

- **Funding:** The amount of funding that the business may need to expand its operations may be significantly higher than the existing capital base of the company. This can be a major problem for the business. If there are investors in the businesses there may be a high degree of risk and they may seek a higher return on their investment because of this.
2. Narrow range of products: Most small business in Ireland will generally have a small number of products in their portfolio. If the business had been successful based on the entrepreneur's initial product or service, then they generally are slow in to invest and expand further in new products or market development.

The business at the start would of invested allot of time and funds to get the product or service going. This may act as a barrier as competitors may introduce more innovative products to the market. It is essential for the businesses to constantly try to enhance the product or service so the customers will keep using it.

3. Innovation: as stated previously the entrepreneurs' competitors may introduce new and improved innovative products or services if the entrepreneur does not react to changing market trends. However, small businesses may not have the skills, or resources to take advantage of this opportunity. There may be even a poor innovative culture existing in the business which may cause major problems for the entrepreneur when trying to grow the business.
4. Poor Planning: The majority of entrepreneurs do not carry out any sort of strategic or long term planning for their type of business. This is mainly where the bigger firms differ where they will have a long-term plan with goals, expected profits, target markets, etc all planned out.

Small business managers are mainly opportunistic when looking to develop their business, mainly if the opportunity arises the business will take action. If the business wants to grow though, a more structured approach to the market will need to be drawn up. They will need to analyse the market as well as carry out primary and secondary research and see how they are going to fit in.

5. Staff: the quality of the workforce is essential to the success of every type of business. Small businesses will tend to start off with lower quality in terms of employees. This may inhibit the growth of the business, however during the start up phase the small business may not be in a position financially to higher high quality staff. This is why training is essential for employees in small businesses. As well as this high quality staff may not be attracted to a small business where there may be no opportunity for them to develop their skills.

### **External Barriers**

1. Market size & Structure: For many small businesses in Ireland today, market size is very important, as it can be one of the main barriers to innovation and growing the business. For small businesses especially the smaller the market is the better. They then know who their competitors are and what their strengths and weaknesses are. The size of the domestic market in Ireland is quite limited when compared internationally.

The structure of the market may cause the businesses to adopt certain strategies, and policies which can prove difficult for the entrepreneur. This is especially the case when looking to expand the business as a whole. The main

advantage for the small firm is when customer requirements vary, they can then stay alive to operate and expand within a niche market.

2. Labour Costs: High labour costs can act as a deterrent for growth in a small business. The cost of labour especially in Ireland in the last decade is rising, as workers and workers union are demanding high wages. This has obviously dropped since the economic downturn. The larger businesses have the advantage as they have the capacity to pay much higher wages to employees, bonuses, benefits etc.

The entrepreneur may also face a lot of difficulties when it comes to complying with labour legislation. The majority of the time can be an unfair burden for the small and medium sized businesses. Labour legislation for these businesses can prove to be very de-motivating for entrepreneurs and may cause them to contemplate their growth and expansion plans for the business.

3. Entrepreneurship as a barrier: As the author has shown on the page previous, there are a number of internal and external barriers to innovation. However the entrepreneur themselves may cause problems which may restrain the growth of the business, and affect the business just as adversely as the other factors can. The entrepreneur may have a strong desire to retain control, and not share control of the business with other managers. They may also resist the need for outside assistance that could help the business get over these barriers.

The entrepreneurs may have poor managerial ability. The entrepreneurs may have started the business successful but may they may not have the necessary skills as a manager to run it sufficiently. They may have no skills in providing training or assistance for staff that need it or he may not know what to look

for in an employee. The entrepreneur may need to change the current business policies as a result, attaining new skills, resources, etc.

The business may have no exit strategy. An example of this would be if the business was a family owned business. The entrepreneur may want to exit but not sell to an outsider. The entrepreneur may be reluctant to sell it to outsiders who have the expertise and knowledge to run the business successfully.

The success of any type of business depends on how it improves its competitiveness, identifying problems and solutions that will help them overcome obstacles. New businesses often encounter numerous internal and external barriers such as a lack of motivation or a lack of labour.

### **2.31: Barriers to market entry for small and medium sized enterprises**

In some industries, barriers to entry for small and medium sized businesses are high and as (Allen.R, 1998 page 33) thinks that more often than not discourage new entrants to enter the market. These barriers can include economies of scale: Many industries over time may have achieved economies of scale in areas such as marketing, production and distribution. It is therefore difficult for new entrants to achieve these same economies of scale.

In terms of the strategic plan for these businesses, they have two options. If they can enter the industry on a large scale, it risks retaliation from the more established firms in the market. On the other hand, if the business enters on a small scale, they may not be able to compete at all on any level.

(Dollinger, 2003, page 76) on the other hand states that some markets may incur high switching costs which will have a direct affect on the businesses profits, and may result in less finances been made available for other areas. The market may also be not profitable, as growth may be slow, they might be no demand among customers, and this may lead to price cuts.

## **Chapter Three: Research Methodology**

### **3.1: Introduction**

This chapter will outline the objectives of this research as represented by the research questions outlined. This chapter also looks at the underlying philosophical assumptions of small and medium sized enterprises, as well as ethical considerations and limitations of the research that the author has experienced. In this chapter the researcher hopes to answer the question relating to the barriers to innovation for small and medium sized enterprises in Ireland today. The author plans to gain a better understanding of how the businesses surveyed react to innovation, encourage it and how they use it in their organisational structure.

### **3.2: Rationale and objectives of research**

From looking through the literature review it is extremely evident that the number of barriers to innovation for small and medium sized enterprises has increased over the last number of years.

With the current economic position that Ireland currently finds itself in, it is very easy to see why these barriers have increased. An example of this would be lack of funding available from the banks for small business to take the next step forward. This is simply not going to happen without appropriate funding.

By carrying out sufficient research the author hopes to gain feedback from a number of selected small and medium sized enterprises in the midlands of Ireland area as to



what they perceive to be the biggest barriers to innovation for their respected industries. The author plans to the main objectives inherent for this research are:

- To explore the various barriers to innovation for small and medium sized enterprises in Ireland today
- To obtain the opinions of the managers of small and medium sized enterprises into how they perceive innovation in their organisation
- How innovation is encouraged in these small businesses.

There are also a number of secondary objectives that the author plans obtain. By carrying out both quantitative and qualitative research the author hopes to obtain information from small and medium sized enterprises in the midlands area. Quantitative research will help the researcher to collect, analyze and interpret the information that is received. Qualitative research will help the researcher to analyse and present the results sufficiently. The author plans to carry out this research by conducting half the questionnaires over the phone and the other half by going into the businesses office and carrying questionnaires' out face to face.

### **3.3: The research design and the roles of the researcher**

#### Research Design:

The research design accumulates around three main areas: Small and medium sized enterprises in the Westmeath area, the barriers to innovation that they face and how these businesses get over these barriers. This research can be justified as businesses especially those in the small business sector face numerous barriers to innovation

everyday in the form of competition, finance, market constraints or internal/external barriers to innovation. The majority of businesses may have some form of structure in place to counter-act this and to continue to be innovative. This research will give an insight into what are the barriers they face and what form of structure they have to overcome these barriers.

#### Roles and duties of the researcher:

The main duties of the researcher are to gather the necessary data and information needed to help the researcher answer the specific question outlines previously. The question relates to the barriers to innovation for small and medium sized enterprises, and the research of these small businesses will be carried out in the Westmeath region. The researcher plans on obtaining this information by conducting questionnaires, as well as obtaining information by making and receiving phone calls. Other information is obtained from books, journals, articles and the internet.

#### Conduct of this research:

The researcher is responsible for the confidentiality of any information exchanged between the businesses and the researcher during the research methodology phase. Any information that the researcher does receive will be used to answer the research question itself and to make assumptions.

### **3.4: Underlying philosophical assumption**

Very few small firms in Ireland today introduce really new products into their product range. This role is more than likely to be undertaken by the larger firms. However, these small businesses do introduce products or services that are very clearly differentiated from that of their competitors. So it is worthwhile to ask the question is there any really direct competition between the two?

Vossen (1998) believes that collaboration between small and larger firms can “create a powerful synergistic relationship”. There is then the issue of whether or not they want to be joined. Small firms may argue that they want to be classified as a small business and nothing else. Although being joined with a larger and well recognised firm may have its advantages. (I.e. easier access to capital, more customers to target, easier market entry)

Small firms always like to produce something marginally different to their competition, and thus find a market niche. This is another major advantage of being a small firm in relation to a larger one. It is easier to find a niche market to take advantage of. They often find new routes to market first, for example ‘direct selling’ over the phone, locating in low cost areas, or via the internet offering similar advantages.

### **3.5: Sample size & selection**

The author has selected twenty businesses in the small and medium sized sector in the midlands of Ireland to base his research on. Some of these businesses are classified as small with less than fifty employees, where others are classified as medium sized with between fifty and two-hundred and forty-nine employees. The businesses that are selected range from a number of different backgrounds and services. Businesses that are included for research are in sectors such as: marketing, accounting, assurance, auctioneers, auto services, property, print & design, business consultants, engineering, etc.

When selecting a sample for carrying out research, the author aimed at picking industries that small business are more commonly found in. An example of this would be in retail, marketing, and consultancy services. Innovation is a fundamental part of every business and every business sector, especially the ones from which these businesses operate in. It is essential that these businesses are innovative and constantly creative in the offering of their products or services.

### **3.6: Research tools**

As stated on the previous page, the author will be carrying out both quantitative and qualitative research. The author will be conducting some face to face interviews as well as carrying out questionnaires over the phone. The main objective of carrying out the questionnaire over the phone is to save time. Any businesses that are in a close geographic location to each other will be carrying out face to face interviews. For those that are located further away, telephone interviews will be done.

There are ten questions outlined for the businesses to answer ranging from their views to innovation, how they encourage innovation, etc. The main advantage of face to face interviews is that the interviews are very structured and the data obtained is easily compared. They also allow for a more in depth conversation regarding the issue, with body language being able to prompt a response. This type of research allows the researcher to gain an understanding of the interviewee's level of knowledge regarding innovation in small businesses.

Telephone interviews are extremely useful when dealing with businesses that are geographically dispersed. Telephone interviews will also help the researcher to save time, leading to quicker analysis of results. Telephone conversations can turn out to be cheaper to run, and quicker, thus saving time for both the researcher and the business being surveyed.

### **3.7: Ethical considerations:**

There are a number of ethical considerations for carrying out this research to ensure the rights of the researcher and the business being interviewed are upheld. The principle of voluntary participation requires that the people being interviewed are not coerced into participating in the survey. It is also important that the researcher informs the business about the procedures involved in the research and the researcher must have been given consent before the questionnaire can be carried out.

Ethical standards also require that the researchers do not under any circumstance put participants in a situation where they might be at risk or their business might be at risk as a result of participation. All research and information exchanged will be dealt with confidentiality. The business will be presented with a confidentiality agreement and the information exchanged will not be made presentably to anyone not involved in the research.

### **3.8: Limitations of research**

When researching this topic the author will not to be that many limitations to my research. One limitation is that my research is specifically targeting the Irish market and the SME sector in Ireland. The views and results achieved will be of the Irish market and of no other country. The potential accurateness of the information received may be another potential limitation to the research.

Because the Irish economy and indeed the world economy is in a state of recession, many Small and medium sized enterprises especially in Ireland may have changed their views on certain matters since recently.

Some of these opinions might be in relation to R & D, marketing, and finance. So there could be clarity in the information received or it may differ substantially.

## **Chapter Four: The Research Findings**

### **4.1: Introduction**

The author's target population for this specific research was small and medium sized enterprises in the midlands area with a specific interest in the midlands area. The author carried out research on twenty of these small and medium sized businesses that are involved in a number of different sectors.

### **4.2: Background Information on Small Businesses in the Midlands**

A small business is defined as an enterprise that employs less than fifty people. Larger enterprises generally employ fifty employees or more. In 2005 four out of five enterprises (81%) were small firms. Small industrial firms employed almost fifty-thousand people, over as fifth of total industry employment.

Larger enterprises (50+ employees) employed three quarters of employees involved in industrial businesses. This figure was 93% of the total industry. 95% of these small businesses were Irish owned.

In the service sector 98% of enterprises are small. Small businesses employed more than 380,000 people in 2005, accounting for more than half of the employment in the services sector. There was a turnover of €86 billion in 2005 in the service sector,

small firms accounted for nearly half this (49%). There were 82,000 small enterprises in the services sector, with 47% of these were family owned, employing less than ten people.

#### **4.3: Analysis and Results of Research Questionnaire:**

There were a number of questions outlined in the questionnaire ranging from one to twenty. Question 1 for the businesses was how unique the company's product or service is in relation to others in the market. 60% of the companies surveyed said that their product/service was unique but substitutes did exist. 25% said that their product/service had significant unique features and very few substitutes exist, where 15% said that their product/service is already widely available which is a barrier to innovation in itself.

Question 2 looked at the most significant barriers to innovation that businesses in the Midlands face today. 55% of businesses stated in the questionnaire that finance and gaining access to finance was their biggest barrier to innovation. 20% said that gaining entry into their specific target market was very difficult in today's economy. Finally 15% noted that competition from rivals was their biggest barrier, as 10% said that problems internally in their organisation were a major problem and were acting as a barrier.

Question 3 posed the question to businesses that if they have an existing policy in place where ideas can be generated for the future development of the business, their products and services. 50% of those surveyed said that they somewhat have a process in place but it is not encouraged as much as it should be. 20% of businesses said that they have a consistent process set up and employees are encouraged to



provide an input regularly. 15% also noted that they had a process but it was not used regularly. 15% of the businesses surveyed said they had no process in place at all.

Question 4 aimed to analyse how important employees were to the development of the businesses both in the current market and the future markets. The question asked businesses do employees have a say in the major decision making processes of the businesses. 80% of businesses stated that employees are very much included and they feel their opinions are very important. 20% of businesses do not include their employees in decision making.

Question 5 is linked to question 4 in some way as the author posed the question what system is in place to let employees generate ideas for to put forward to management in relation to the major decisions that have to be made and where the future of the business is heading. 30% of businesses surveyed said they have numerous suggestion boxes located around the offices, and encourage employees to make contributions as regularly as possible. 25% of businesses used specific software to allow employees update their ideas onto the system. 25% also allow employees to sit in on meetings and their ideas are talked about then. 20% send e-mails to management in relation to their ideas for the business.

Question 6 looked at what issues were the most important to the businesses in relation to customer service, costs and profits. 40% of businesses stated that they now focus on lowering costs where at all possible while trying to provide the best service they can. 30% of businesses stated they aim to be product leader in their specific business sector. 20% of business stated in the questionnaires that they aim to

improve the quality of their service in every area, while 10% of the business aims to diversify their product/service on a regular basis.

Question 7 looked at the innovative activity of the businesses in the last 5 years. 65% of the businesses that carried out the questionnaire introduced new business practices as a result of creative thinking in the last five years. 30% of businesses introduced new working methods for their employees to increase productivity levels. And finally 5% set up organisational external relations with other firms in the same market.

Question 8 involved looking at the company financial performances in relation to the last five years. The author asked the businesses how much their financial situation has improved in the last 5 years as a result of innovative and creative thinking. 50% of businesses surveyed noted that their financial situation had improved between 25-50% in the last five years as a result of innovative and creative thinking. 35% of the businesses had improved their revenue between 0-25% as a result. A very small portion of those surveyed had improved their financial situation from between 50-75%. 15% of businesses surveyed said this was the case.

Question 9 posed the question in relation to budgets; time allowances for employees to be innovative and creative while at work. 65% of those surveyed said they do on some occasions let employees have time off during the day to analyse their own ideas, brainstorm, etc. 25% of businesses said they never make budgets or time available for employees as they do not think it is necessary. And finally 10% of the businesses have an established policy, budgets, etc set up for their employees.

The last question, question 10 gave the businesses an opportunity to make recommendation to the Irish government as to what they could do to make the businesses run more efficiently. 50% of the businesses would like to see a reduction in taxes for their specific industry. 30% would like to see more support from the government i.e. more grant, incentives, etc, and also 20% would like to see more capital for small businesses being made available, whether it would be in the form of loans or grants.

## Questionnaire

*Q1: How unique is your businesses product/service?*

- ~~a. Unique features, very few substitutes~~
- b. Unique features and existing substitutes
- c. Product/service is widely available

*Q2: What do you perceive to be the biggest barrier to innovation in your organisation today?*

- a. Competition
- ~~b. Gaining access to capital~~
- c. Your current competitive market
- d. Internal problems in your organisation

*Q3: Is there a current idea generation process for you organisation?*

- a. No system in place
- ~~b. Somewhat~~
- c. Consistently

*Q4: Are your employees involved in the decision making process for your organisation?*

- ~~a. Yes~~
- b. No

*Q5: what structure is in place for employees to communicate their ideas with other in the company?*

- a. Suggestion box
- b. Group meetings
- c. Company software
- d. Emailing management

*Q6: Which of the following are the most important in relation to innovation in your business?*

- a. Market leader
- b. Improve the quality of the service offering
- c. Lower costs
- d. Diversify products

*Q7: In the last five years has your business:*

- a. Introduced new business practices to enhance creativity
- b. Introduce new methods of work responsibilities
- c. Set up external organisational relation with a similar type business

*Q8: What percentage has your financial situation improved as a result?*

- a. 0-25%
- b. 25-50%
- c. 50-75%
- d. 75-100%

*Q9: Are budgets and time made available for employees to generate ideas and be creative?*

- a. ~~Never~~
- b. Occasionally
- c. Yes on a weekly basis

*Q10: what recommendation would you have in relation to support for small businesses in Ireland today?*

*more funding are needed*

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## Chapter 5: Discussion

After analysing the results, the main topic of analysis and the biggest barrier to innovation would be the lack of funding available for small businesses. It is clear to see that small businesses are looking to be innovative and to create new products or services but a lack of support financially is stopping them.

This can be confirmed by the ISME (Irish Small and Medium Enterprises) who in December issued a notice on the financial situation of small businesses, boosting good and bad news:

[www.isme.ie/stg/public/download.php?site=site3008&file=10347...](http://www.isme.ie/stg/public/download.php?site=site3008&file=10347...)

Monday 13<sup>th</sup> December the ISME released details of its quarterly bank watch survey which entails details about a reduction in the number of small and medium sized enterprises requesting new facilities from their bank in the last quarter. While the numbers are down, there has been an improvement in the success rate in accessing credit from banks marginally. 33% were refused credit by their banks in the last three months, compared to 42% in the previous quarter.

There also needs to be a system set up in every organisation to allow employees to be creative. This may result in the long-term success of the businesses and may even save jobs. There is sufficient space in all offices for employees to take advantage of so this should be encouraged by management.

From reviewing the recommendations from the questionnaire, there are two main stands out issues which are the tax system and finance being made available. Many businesses in the small and medium sized sector are continually wishing for something to be done in order to help them improve their day to day business and help it run smoother. So what can the government do?

Firstly a financial institution with particular emphasis on small businesses should be introduced, only for lending to business in the small and medium sized sector. This will increase lending in this sector while the banks can go about getting some of their own finance back. The government who are a major shareholder in the banks must use their power to facilitate this and set it up.

In terms of an innovation system Ireland has a long way to go, and the ability of Irish companies to research, commercialise, produce and sell high value added products will be very important to their future economic success. A strategy should be set up to facilitate co-operation among businesses, and being open to taking risks. This could involve for example collaborations and activities with higher education institutes. Linking this, as well as being creative and entrepreneurial and lead to strong economic growth.

The Irish tax system is one that does not favour the small and medium sized sector as well. The tax system is to fund expenditure for the government. If the government were to lower taxes on a broader base, spreading it more evenly, it will help to raise revenue from a wider range of sources. This in turn will help economic activity, increase employment, and improve overall living standards. It will also make more finance available for small businesses.



Some recommendation from the questionnaires was that taxes were unreasonable for small businesses. There should be a reduced tax rate for small businesses compared to the larger ones, as well allowing tax incentives for the smaller businesses. Overall small businesses could do with help; one example which was listed in the innovation taskforce report of this year was to introduce in 2011 an audit scheme for small and medium sized enterprises.

There should also be extra support made available for introduction and development of innovation in small businesses, and for teaching small business owners how innovation can be achieved. One way this could be achieved would be using the innovation management initiative, which enterprise Ireland offer to small business owners. This will help strengthen the initiative itself if more businesses use it.

Another recommendation would be to drive and improve its current rate of employment and its current business start-up as well as job creation. If this is to be achieved then there may be a need to introduce some sort of policy targeting growth in small businesses, which in turn would help the businesses develop and move forward creating jobs along the way.

It is also important to support locally traded services. They already receive support from the likes of FAS, enterprise Ireland, enterprise boards among others. The major challenge will be to re-direct some of this support to the small businesses in the likes of the midlands of Ireland, who have the ambition, capabilities and potential to achieve significant growth, create jobs, and expand.

## Conclusions

Success in every organisation begins with how well the business deals with the area of uncertainty. The threat of uncertainty can throw some companies but dealing with it productively can help the business in the long run. While there are a number of barriers to innovation in every industry today, it does not need to halt the process of innovation in a business.

Small businesses are a driver of innovation and economic growth in Ireland today. In this current era optimizing the ability of innovative small businesses to develop and commercialize new products is essential for the small business sector, national competitiveness and growth. Developing much better incentives to encourage innovative ideas, and products needs to be encouraged.

Research and development into what the business is trying to achieve is essential as well. In numerous industries in Ireland today change is an ever occurring factor and organisations must be responsive to change in their specific sector and be able to respond to it. There is a need to constantly introduce new products or services or to modify existing ones to give your business a competitive advantage.

In the last decade or so Ireland has gone through a rapid period of fundamental change in every business sector in the economy. This further adds to the numerous challenges that they already face as a result, with the introducing of new products or services, and the new ways of doing business.

It is essential that these firms constantly strive to change as kotter (1998) states “the rate of change is not going to slow down anytime soon”.

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## Appendices

### Appendix A:

The level of barriers to innovations enterprises can face is un-constrained. Lack of leadership skills, poor infrastructure, legal & property rights and many others can get in the way of ideas being brought to the fore. The most effective way to overcome barriers is to get into a discussion about them, outlining where the business is going wrong and how to counter act and work through these problems. The solutions must be complete as well as specific.

(<http://whitepapers.techrepublic.com.com/abstract.aspx?docid=273602>) argues that there is an added benefit for the organisation in starting these discussions. The most valuable asset for any business is their network of customers and contacts. Building a basis for strengthening social partnerships and building relationships is essential and working together to solve common problems is an effective way to establish or revitalize the company's current strategy.

### Appendix B:

Creativity and innovation by definition involve the creation of something new which,) is essential for the innovation process to work. Creativity and innovation are considered to be joined to entrepreneurship, which is in turn included in the act of starting up and running a business. (Larsen & Lewis, 2007, page 142) believe creativity is clearly part and parcel of the entrepreneurial skills required to successfully start a new business venture. Entrepreneurs implement new and creative ideas to introduce innovative products or services, or to deliver products or services in a new, more efficient, and more importantly cheaper way. Innovation in New Product Development could include upgrading an existing product or developing a totally new concept to create an original and improves product/service.

## Appendix C:

Enterprise Ireland example of Innovation: The Workplace Innovation Fund is open to all

Enterprise Ireland client companies, i.e. home-grown, private-sector manufacturing or service businesses. The Workplace Innovation Fund is aimed primarily at small and medium sized enterprises that are defined as

### Small business

- Max of 50 employees
- Annual turnover not exceeding €10 million
- Been trading in Ireland for at least five years

### Medium Enterprise:

- Between 50 – 249 employees
- Annual turnover not exceeding €50 million
- Been trading in Ireland for at least five years.

## Appendix D

Business culture is an integral part of every business. While many small business owners are natural innovators, there is a wide range in the interest and ability to innovate. Some are resistant and un-willing to try new ideas, approaches or methods. As with all organisations, leadership has an enormous effect on small business culture and their willingness to innovate. Business leaders define culture and

leadership of their specific business. The way small businesses owners embrace and manage change determines how their willingness, or lack of willingness to innovate.

[http://download.intuit.com/http://intuit.com/intuit/futureofsmallbusiness/intuit\\_fosb\\_report\\_march\\_2009.pdf.pdf](http://download.intuit.com/http://intuit.com/intuit/futureofsmallbusiness/intuit_fosb_report_march_2009.pdf.pdf) outlines how leaders can adjust their organisation's goals, style, and behaviour to either increase the pace of innovation or to impede it. Most innovative companies have a culture that values risk taking, experimental strategies and trying new ideas out. The leaders at successful businesses encourage and reward behaviour that increases innovation for the company. Changing the culture of any business is by no means easy. Managers and leaders alike need to embrace innovation and encourage their employees to open their dialogue and try new things. Sharing, open collaboration, and brain storming can aid this.