

# THE 4 MYTHS KEEPING MEDIUM ENTERPRISES FROM INNOVATING



**exago**

INNOVATION  
COMES TOGETHER

# By



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## about EXAGO

Exago is a pioneer in idea management software and expert services (US patented model) that successfully activate your organisation's collective intelligence to solve pressing business challenges: from operational efficiency to new sources of revenue.

Since 2007, Exago has grown with our clients and partners worldwide. Together, we've reached four continents, from retailers and telecom operators to health organisations and energy suppliers. We have three office locations: Lisbon, Portugal; London, UK; and São Paulo, Brazil.

# How can medium enterprises innovate successfully?

Though not always fully recognised, Small to Medium Enterprises (SMEs) are the root of economic growth and job and wealth creation. They play a vital role in the global economy, strongly contributing to employment rates, innovation and growth. For instance, in the European Union they represent 99.8% of all enterprises, where they generate 60% of GDP, and provide 70% of employment in the private sector. Yet, such a fundamental role is only possible if SMEs are able to continue reinventing themselves in order to innovate actively and remain relevant.

First suggested in 1931, the theory of innovation dynamics proposed by the founding father of innovation, Joseph Schumpeter, is more fitting now than it has ever been: the generation of new ideas and ways of doing is imperative for economic growth. All organisations, no matter how small or large, are facing challenges today that were unheard of only a generation ago.



“Companies must decide wisely, fast and continuously how to invest and use an array of new methods and technologies while fighting to compete on a global stage”

Trade liberalisation and the movement of financial capital, paralleled by the information and communication technology development, have accelerated this trend exponentially. This means that companies must decide wisely, fast and continuously how to invest and use an array of new methods and technologies while fighting to compete on a global stage.

According to Schumpeter, the only way to respond to this growing competitive business environment is to develop an economy based on innovations, knowledge and educated people. And nowhere is this fight to succeed more marked than in medium-sized companies.

## Why medium companies still fail to innovate

The intense competition that medium enterprises face requires these organisations to reconsider their competitive positions and embrace innovation to enhance business competitiveness. To do so, innovation must be embedded in the organisational structures, processes, products and services of any medium-sized company.

Those that don't keep up with the creative and innovative pace will inevitably fall behind. Businesses whose products adapt to the needs of target customers – marketed faster and more efficiently than their competitors – are better positioned to create sustainable competitive advantage. The data available keeps us on alert mode: on average, it takes less than one year before competitors copy your products.

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Though companies can reap the biggest rewards from innovation, for most medium-sized enterprises, it's not always that easy to launch successful idea management initiatives and find a cost-effective balance where they can truly sustain competitive advantages. To achieve that, one must overcome some misconceptions that often block the path to success.

# MYTH 1: In innovation, size doesn't matter

## Reality check: It does. A lot

A medium-sized company employs up to 250 people and has an annual turnover of up to €50 million. It has neither the resources of large multinationals or the flexibility of its smaller peers. On the one hand, large-scale companies find it more difficult to make more drastic changes because they have more at stake. On the other hand, if they are willing to invest, they have the resources necessary to really encourage and implement innovation, and may also be less risk-prone.

Corporate giants such as P&G, General Electric, Nike and IBM remain some of the most innovative companies in the world, because they recognise that investing in innovation is the only way to survive.

These companies can explore all branches of innovation, both incremental and disruptive, by hiring specialised people such as Chief Innovation Officers, creating devoted teams, and investing in R&D labs and partnerships with universities. When innovations fail, they are able to absorb losses. In fact, rather than substantiating the idea that big companies are resistant to change, studies suggest that large organisations with high level of complexity and differentiation possess higher motivation to adopt innovative behaviour.

On the other end of the spectrum, small companies have fewer resources but are more agile to experiment and discuss new approaches, particularly when it comes to start-ups. While the more traditional businesses remain the same or grow progressively over the years, the ones that do scale (and tend to be more risk-prone) often experiment and try faster. This means they will also fail faster and often, in what Silicon Valley calls “failing forward”, leading to faster growth rate.

“Small companies (...) are more agile to experiment and discuss new approaches, particularly when it comes to startups”

So where do medium enterprises fit in? Right in the middle, between two very different realities.

And so there are several barriers that these companies face on their path to innovation, such as:

- Lack of budget/limited monetary resources
- Lack of innovation infrastructure
- Shortage of innovation specialists
- Lack of incentives for innovation
- Resistance to change (in top-down initiatives)
- The high cost of new tools and processes



For these reasons, these firms are more at risk of falling behind because they are not investing enough to meet the challenges brought on by new technology. Adjustments must be made to adapt to technological change and disruption, but most companies are less able to invest and experience day-to-day struggles amid weak business growth.

But it's not all bad news, since medium-sized enterprises:

- Still have **flexibility** in their structures;
- Have **more resources** than smaller companies – and research has shown that radical innovations can also occur within a context of tight slack resources, without requiring a full team devoted to innovation;
- Can also be more **open to risk** (but judiciously);
- Often boast **close ties to their workforce**, whether it stems from a family business or a strong connection with the local community, making it easier to reach them.

The following table sums up this reality:

### Companies' resources to innovate per dimension (more typically)

	SMALL Enterprises	MEDIUM Enterprises	LARGE Enterprises
<b>Financial Resources</b>	<ul style="list-style-type: none"> <li>- Lack of specific budget for innovation</li> <li>- Little or no monetary resources for tools, processes and incentives necessary to encourage and implement innovation</li> </ul>	<ul style="list-style-type: none"> <li>- Limited budget for innovation</li> <li>- Limited monetary resources for tools, processes and incentives necessary to encourage and implement innovation</li> </ul>	<ul style="list-style-type: none"> <li>- Stronger budget for innovation and more able to absorb losses when innovations fail</li> <li>- Stronger budget for other resources necessary to encourage and implement innovation</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>- Small teams, rarely with anyone fully devoted to innovation</li> <li>- No innovation specialists</li> </ul>	<ul style="list-style-type: none"> <li>- Some resources, but no devoted resources /team</li> <li>- Shortage of innovation specialists</li> </ul>	<ul style="list-style-type: none"> <li>- May have Innovation Managers, Chief Innovation Officers or create devoted teams</li> <li>- Can hire specialists</li> <li>- Also invest in R&amp;D labs and partnerships with universities, using their human skills</li> </ul>
<b>Corporate structure</b>	<ul style="list-style-type: none"> <li>- Very flexible structure, typically more horizontal</li> </ul>	<ul style="list-style-type: none"> <li>- Some flexibility in structures</li> </ul>	<ul style="list-style-type: none"> <li>- More rigid and bureaucratic structure</li> </ul>
<b>Innovation infrastructure</b>	<ul style="list-style-type: none"> <li>- No specific infrastructure</li> <li>- Agile to experiment and discuss new approaches, to try and fail faster ("failing forward")</li> </ul>	<ul style="list-style-type: none"> <li>- Often lack an innovation infrastructure, but some flexibility to experiment</li> </ul>	<ul style="list-style-type: none"> <li>- Can have a devoted infrastructure for innovation</li> <li>- Can explore all branches of innovation, both incremental and disruptive</li> </ul>
<b>Risk-taking for innovation</b>	<ul style="list-style-type: none"> <li>- Can be more risk-prone</li> </ul>	<ul style="list-style-type: none"> <li>- Judiciously open to risk</li> </ul>	<ul style="list-style-type: none"> <li>- More difficult to undertake and accept high-impact risk-taking</li> </ul>
<b>Innovation culture spreading</b>	<ul style="list-style-type: none"> <li>- Less resistance to change</li> <li>- Very close ties to workforce</li> </ul>	<ul style="list-style-type: none"> <li>- Some resistance to change (in top-down initiatives)</li> <li>- Close ties to workforce</li> </ul>	<ul style="list-style-type: none"> <li>- More potential resistance to change (in top-down initiatives)</li> <li>- Looser ties to workforce - more challenging to create a widened innovation culture</li> </ul>

Taking all this into consideration, there is no single bulletproof formula for companies to innovate, but rather multiple possibilities. Very diverse companies find their own ways of bringing about fresh, impactful ideas, based on past experiments and all the knowledge gathered across industries. All in all, the message is:

Innovation is not a pure science, and must be tailored to the size and reality of each company, founded on industry best practices.

## MYTH 2: The ultimate goal is to have the next big product innovation

### Reality check: In part, but do not miss the bigger picture

Companies today must keep the pace with the fast changes in technology and consumer behaviour, but it is possible – and essential – to add value to your customers without necessarily changing what you do or sell in a radical way. All it takes is a bit of creativity, either by innovating new solutions or improving existing products in order to drive growth and profitability.



Also, **product innovation** isn't just about inventing new products; it also comprises improving the design and function of existing products, and using new technologies, manufacturing processes and materials to ensure

they stand out from competitors. Product innovation can deliver increased market share (if a product meets the needs of the consumer and disrupts the target market), increased profit (by developing a unique, innovative product that is superior to that of the competition), and success in failure (when a "failed" product in one target market can be applied successfully to another target market).



Besides product innovation, however, there are other types of innovation that, when focused on specifically, can be a more effective and strategic innovator. They include:

### Process Innovation

Process innovation can include reengineering and improving the internal operation of business processes, which involves technical design; R&D; changes in the equipment and technology used in manufacturing; management, accounting and customer service methods; and commercial activities. This process is typically the lowest-risk type of innovation, and generally helps to reduce costs of production rather than drive an increase in revenue.



## Market Innovation



Market innovation entails implementing a new marketing method involving significant changes in product design, product placement, product promotion or pricing. Its goal is to meet customers' buying preferences through market mix and market selection. As companies shift their attention to digital marketing in order to engage and involve customers, this type of innovation allows companies to open up new markets with their existing product portfolio and know-how. Of course, that also means that, thanks to the online marketing tools available to businesses, competitors are also able to reach potential customers instantly.

## Organisational Innovation

The concept of organisational innovation is part of the concept of innovation and development, highlighting new ideas and propensity for change within organisations. It encompasses implementing a new organisation method in the undertaking of business practices, workplace organisation or external relations. Culture plays a big role in organisational innovation, with the advantages being improved workplace dynamic, engaged workforce, and a breeding ground for creative and innovative thinking.



In this vein, innovation doesn't necessarily have to be radical either; incremental innovation (i.e. a series of small improvements or updates that don't differ significantly from current practices) is more affordable and makes ideas easier to sell. Above all, investment in innovation must be ongoing, and this is more easily developed in medium-sized companies where the people are closer and more reachable to the board level, creating an innovation culture that manages to involve all employees.

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## MYTH 3: It's all about engaging the best minds

### Reality check: Capturing talent is important, but don't forget collective intelligence

Medium-sized enterprises often find it hard to hire the top-notch, brightest minds, when competing with the salaries of large corporations, or the magnetism and “sexiness” of the smaller ones, particularly with this new wave of tech start-ups. Even though key professionals are relevant in any company, do not neglect your secret weapon: a workforce that, when engaged and encouraged to be creative and innovative, can help drive your company's business goals.



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For this reason, it is vital to bring everyone in your workforce on board and make use of that collective intelligence. To do this, it is extremely important to lead by example and mobilise leadership. The next step is identifying the challenges and priorities, and have internal innovation champions for these focus areas.

Besides engaging your community and tapping into a wealth of knowledge and insight that would otherwise not be utilised (while helping develop and spot talents within your existing workforce), you should also remember to use your network fully.

Look beyond corporate borders and involve stakeholders, clients, suppliers – and even clients – in your innovation challenges, which can provide great benefits for the whole.



In this sense, medium-sized businesses are actually better positioned than their peers. Innovative ideas flourish in smaller organisations where, due to faster communication and quicker acceptance, like-minded people support each other's initiatives and convert ideas into innovative products faster. This is especially true if the company has already invested in organisational innovation, as previously mentioned. A culture of innovation is founded on engagement and shared knowledge, and must be managed well to bring together people's unique expertise and experience.



## MYTH 4: **There is nothing more powerful than brainstorming**

### **Reality check: Other proven tools can support the evolution of your innovation management efforts**

Brainstorming sessions have traditionally been the go-to way for companies to generate new ideas, but the truth is, they are not always effective and don't necessarily produce quality ideas. Hackathons may be more productive, but they are time-bound and their results tend to be limited. Also, the more traditional "idea suggestion boxes" have been left in the past, with little results to show as we move to the digital arena. Methods such as Design Thinking or Lean Management do lend a hand but tend to focus on a segment of your workforce potential.

Creating a more specific structure to collect and incentivise ideation and idea discussion, and to do it on a daily basis, will allow your people to come together to find ideas that meet your business's strategic challenges and issues that affect their day-to-day job and work environment.

You should lead the way by identifying periodic and more strategic challenges, inviting everyone to have their say and contribute to key corporate goals.

Enter the power of technology. Innovation management platforms have become a robust tool for mid-size companies to innovate and are being adopted across sectors to welcome and promote this involvement. They allow for more participation in your innovation initiative, thus boosting employee engagement, and ensure more ideas (aligned with the company's goals) are shared. It also guarantees that the best ones are selected efficiently and then implemented successfully.



As innovation programmes can become highly complex, and in most cases, companies will be wading into unknown territory, these firms should ideally pick a proven, straightforward and more streamlined platform to get started.

**To avoid over-complicating things, remember the following features when considering making the process as efficient and manageable as possible:**

- ✓ A platform that is **easy and quick to launch** with straightforward, predefined configurations, designed around best practices that facilitate platform management and optimise delivery;
- ✓ A pre-defined, **simple idea workflow**, since you need to accelerate results;
- ✓ Mechanisms to ensure **process transparency** so that everyone understands the “state-of-the-art” character of your innovation programme;
- ✓ **Gamification and social features** to easily engage your workforce and incentivise participation using **recognition methods** (ranking and levels based on overall participation will create a healthy environment and contribute positively to your programme);
- ✓ A **dashboard** that provides the main KPIs you need (engagement, ideation and evaluation results are the most important to start).

If you are seeking to launch your innovation programme more broadly, you should be practical yet demanding. Additional services provided beyond these innovation platforms, that can help you in areas where you feel less supported, may also be considered, but be sure to get a package tailored to your needs.



# What is the best innovation fit for medium enterprises?

Companies today have to generate innovations successfully to ensure progress and economic growth, by developing high levels of entrepreneurial and market orientation and technological capabilities. To succeed in this business landscape, medium entrepreneurs need more support in terms of funding, knowledge and skilled human resources. The right tools to achieve all this should be at the forefront of every business's innovation goal.

The answer is a systematic approach to innovation, which entails creative human resources, effective team work and motivating all employees at every level. In other words, for a medium enterprise to launch a successful programme and optimise its results, it has to make the most of what it has got.

In doing so, **remember the following best practices:**



First, **make your goals clear** and define how innovation can help you achieve them.



**Involve all your teams and department leaders**, from human resources to communication, right up to board level. They will help you assess your priorities and what is really relevant for your programme.



This **universal engagement is key**, and will help you capture talent and leverage expertise (often untapped) from every level of your enterprise. While you may not have a dedicated innovation team, your existing **workforce** and their **combined potential** are already close to you.



Consider incorporating **technology** into your programme. **Simplified, efficient innovation software** will ease your job and bring in **fast and relevant results**, particularly if you are in the early days of setting up an innovation programme. They are proven to trigger fast and steady results across sectors.



Nurture an environment of creativity and innovation by **recognising and rewarding participation**. You can introduce a rewards system (financial or otherwise) for employees who contribute significantly to this sort of development. Recognising those employees, and announcing implementation results, also ensures everyone stays motivated and the culture is truly embedded within your organisation's walls.



It may also be worth **involving clients and suppliers**, which enables you to gain insights from elsewhere and **activate your network**.

**Sometimes** the hardest part is simply knowing where to start. If you feel that you need to expand your innovation efforts and show results swiftly but are still uneasy of which path to follow exactly, it may be useful to bring in budget-controlled external expertise or incorporating tried and tested innovation tools to promote your innovation initiative growth.

The greatest obstacle to innovation is the lack of experiencing it. You need to think and try, either to fail or to succeed.

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With this in mind, leverage whatever you have: be it specialised teams and laboratories, new innovation approach methodologies, such as Design Thinking, brainstorming or periodic hackathons, academic or consulting partnerships, the minds of the best managers or the potential of your workforce. Intelligent planning is always required, but you have to dodge decision-paralysis to deliver real results.

All these tools can complement each other, though you will likely have to make some options. They can help you innovate – at different levels and through different lenses – and to prevail in an ever-competitive global market.

Summing up, remember that the fundamental building block is already in place, no matter how small or large your company is: **the cumulative knowledge and collective expertise** that informs and supports your corporate culture.

Medium enterprises are built and positioned to grasp this at least as effectively as anyone else.

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