

INNOVATION: A CHALLENGE TO MEDIUM-SIZED COMPANIES

A synthesis of Notebook of Ideas CI 1204 “Innovation in medium-sized Brazilian companies – A challenge for competitiveness”, under the coordination of professors Fabian Salum and Carlos Arruda, and with the technical support of Luiza Grizolia and Raoni Pereira (Bradesco Innovation Core).

Introduction

A he organizations that have been crafting strategies to keep themselves competitive over the last few years, looking to the perennation of their businesses, have already discovered one of the main paradigms to take leadership in their markets – the unceasing quest for innovation.

To ponder over this trend, FDC developed an investigation effort over the past two years whose goal was to understand and analyze the participation and relevance of innovation in the strategies of Brazilian mid-sized businesses. Thus, the objective of this study, besides the dissemination of knowledge, is to assist companies in the strategic development of innovation as one of their possible competitive differentials.

This paper is organized in three parts. The first part, besides describing the size definition as adopted by the research at hand, also seeks to show the important role played by mid-sized companies in the domestic economic scenario, emphasizing the relevance of innovation for their development. The second part describes the sample and the third provides a descriptive analysis of the data collected and a conclusion offering considerations of the scenario as outlined by the research, highlighting the theme's importance.

Part 1

The importance of MSMBs

Brazilian micro, small and medium businesses (MSMBs) play an exceedingly important role in the current Brazilian socioeconomic scenario. There is a growing recognition of the role played by these organizations in promoting economic growth, income generation and job creation. Besides, MSMBs are directly related to sustainable economic recovery in the global and regional scenario. This happens because these companies have a great

adaptive capability in the face of technological change. This being the case, in periods of economic instability, they become facilitators of the restructuring process, minimizing impacts upon larger companies.

For the purposes of this paper, the classification adopted for medium and medium-large Brazilian companies is the same considered by the BNDES – the National Social and Economic Development Bank – that is, companies predominantly operating in the industrial, commercial, services and/or agribusiness industries enjoying gross annual operating revenues greater than R\$16 million and smaller than R\$300 million (see Table 1).

Table 1 – Company size according to annual sales

Size	Annual Sales
Micro business	Less than R\$2.4 million
Small-sized business	Between R\$2.4 million and R\$16 million
Medium-sized business	Between R\$16 million and R\$90 million
Medium-large business	Between R\$90 million and R\$300 million
Large-sized business	Greater than R\$300 million

Source: BNDES, 2011

Innovation in medium-sized businesses

Innovation is strongly linked to business strategy these days, such that it is an important business-leveraging factor, leading them towards leading market positions. In this manner, innovation represents an alternative for medium companies to be competitively inserted in a

process of differentiated, instable demands. However, for innovation to become reality in organizations, it is important for companies to structure their processes, strategies and managerial practices that will favor innovative activities.

In this context, innovation can be construed as the allocation of resourced veered towards the exploration and development of new products and processes that seek to explore new market opportunities.

Considering the Brazilian scenario – the focus of this paper – investments in innovation are still embryonic, mainly in smaller size companies. The theme “Innovation in medium-sized businesses” still requires comprehensive, systematic studies. However, the relationship between economic growth, innovative activities and the role played by medium- sized companies is evident. In this sense, this paper intends to make a contribution towards reflections around this theme, in order to bridge the existing knowledge gap and thus help understand how innovation happens in medium-sized companies.

Part 2 Sample description

Altogether, 825 questionnaires were applied, for a 28.2% response rate. Respondents numbered 223 from 149 different companies located in the four regions of the country. Most Brazilian companies participating in the sample (57.7%) are installed in the Southeastern region. Then come Northeastern companies (22.8% of the sample); then Southern companies (16.8%) and, lastly, those from the Midwestern region (2.7%).

Part 3 Descriptive findings analysis

Innovation as an integral part of business strategy

Upon “looking inside” their organizations, 153 respondents (71.2%) believe that innovation appears with evidence in their companies’ ideology, made explicit as a value or otherwise clearly identified in the company’s vision. As a counterpoise, as indicated in Chart 1, upon looking at the competition – looking “outward” – only 47 respondents (22.2%) stated that innovation appears with evidence in their main competitors’ strategies. In turn, 101 respondents (47.6%) believe that it is evident in some competitors; 38 respondents (17.9%) stated that it is evident in only a few competitors and 26 respondents (12.43% answered negatively – that is, innovation does not evidently appear in their competitors’ strategies.

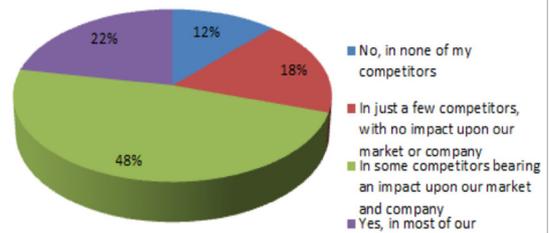


Chart 1: Innovation as an integral part of business strategy
Source: Prepared by authors, 2011.

Innovative practices adopted by companies

The so-called innovative practices adopted by companies are responsible for part of the organizations’ market success. They are product, service, process and managerial innovations, plus the creation of new business models. As indicated in Chart 2, these practices are present in organizations and vary between 16.7% and 23.3%. Notably, they do not follow a pattern and vary proportionally according to economic industry and business strategy.

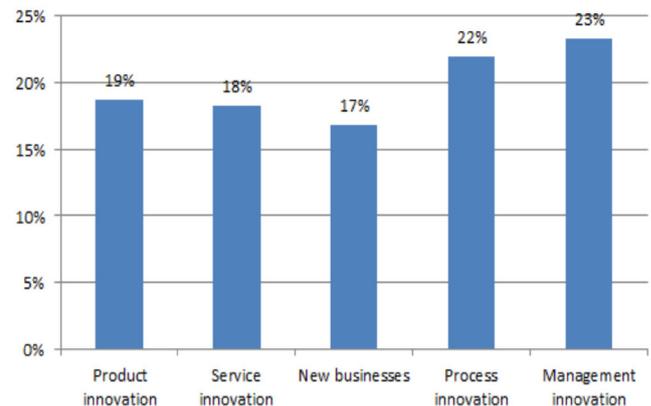


Chart 2: The presence of innovative practices in companies
Source: Prepared by authors, 2011.

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Conversely, the activities described in Chart 2 are not used systematically, since they do not represent a parameterized agenda within the organizational routine.

However, not only these practices are considered embryonic as concerns Brazilian medium-sized companies. Activities such as basic research, applied research, experimental development and nationalization/ tropicalization of products that are directly germane to innovation are also scantily pursued by these organizations. Given the above, one may conclude that investments in Innovation and R&D are still scarcely pursued by Brazilian medium-sized companies.

Control indicators

Most Brazilian medium-sized business do not use control indicators in their planning to assess innovation and research & development management. Among the senior managers of Brazilian medium-sized companies participating in the investigation, only 33.2% stated they resort to indicators or any kind.

Of this percentage (33.2%), the most often cited indicators were the number of new products and services (43.9% of the sample); the percentage of sales (15.2%), number of research reports published (12.1%); time-to-market (4.5%); and the number of new technologies acquired (3%). Other indicators were mentioned by the remaining participants (21.3%); however, on an individual basis.

Universities and research institutes

Brazilian medium-sized companies have a low level of involvement with universities and research & development institutes, which is prerogative of competitive advantage. Only 30.6% of research respondents stated having entered partnerships with universities and/or research institutes, compared to an overwhelming majority of 69.4% of respondents who stated having no association and/or partnership of any kind veered towards innovation either in Brazil or abroad.

Chart 3 demonstrates that, as concerns the minority that stated having partnerships with universities and/or research & development institutions, the most often cited were FDC, with 14.8%; USP and Unicamp, with 9.9%; Senai, with 8.6%; UFSC, with 6.2%; Itai, with 4.9%; and UFPR with 3.7%.

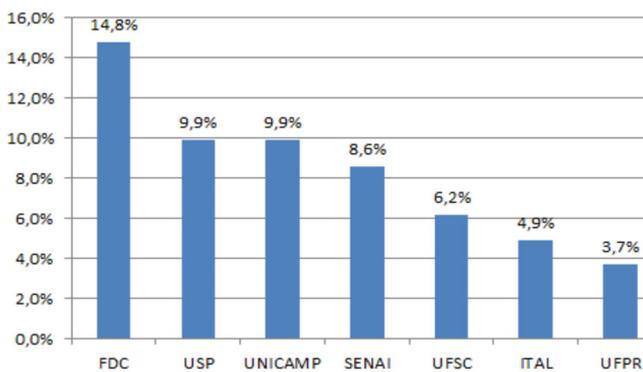


Chart 3: Institutions partnering with Brazilian medium-sized companies

Source: Prepared by the authors, 2011.

Many other institutions were mentioned; individually, however. Altogether, they represent 42% of the sample. Some of them were UFMG, Cefet, Unilavras, PUC-RS, FMRP, UFRGS, Ufscar, Unicid, ABC, UFB, UFC, ITFPR, Nutec, UNB, UFV, Unicastelo, PUC-RJ, Cetec, UFS, University of South Hampton and Chinese research institutes.

Upon analyzing Chart 3, notably, FDC was significantly mentioned vis-à-vis other institutions due to the fact that the companies participating in the investigation are FDC's partner companies.

Innovation-fomenting lines

Within the universe of companies investigated, only 20.2% of medium-sized companies stated their resort to some innovation-fomenting act or program. This result is compatible with the data collected by the IBGE Pintec-2008 survey.

Upon detailing the reasons indicated by respondents, which entailed the high rate (79.8%) of companies which do not resort to incentives to innovate, 48.9% stated ignoring the matter; 22.7% stated a lack of focus on the matter; 9.1% stated having no perception of such need; 5.7% sought assistance but their projects were not approved; 5.7% indicated bureaucracy as the main hurdle; and 4.5% stated their companies do not have such culture.

The companies that responded with "ignorance about the theme" and "lack of focus upon the subject" represent 71.6% of the reasons why innovation incentive lines are not used. This datum contains reason for concern, given the fact that incentive lines are myriad, as are the programs offered by the federal and state administrations that can serve most of these companies.

Innovation strategies

Crafting business strategies is of the essence for corporate survival. Considering that the constant innovation challenge represents the factor of the highest relevance in the world economy, innovation should be factored into the strategies of all organizations. However, less than 50% of respondents clearly perceive such need.

- On average, 42.67% of respondents stated that:
- Innovation is contemplated in the principles and values established by their companies;
- Innovation also plays a clear role in their business project;
- Senior management encourages their employees to adopt a culture veered towards innovation.

Organizational culture

For an innovation culture to consolidate itself, it is of the highest importance that the work environment be propitious and favorable to its implementation, being therefore open to changes and to creative manifestations.

However, there are a significant number of managers who believe that organizational culture inhibits the

development of innovative activities in medium-sized businesses.

On average, 38.4% of respondents believe that never or rarely:

- More innovative employees are valued when a promotion opportunity appears;
- Employees have autonomy to work on their own or in colleagues' ideas and projects that will entail innovation;
- Innovations developed by the company are often times consequences of a comprehensive participation of employees from different areas of the company;
- The company makes time and resources available for innovative project conception and development;
- In employee development programs, innovative and entrepreneurship competences play a distinctive role.

Partnerships for innovation

The establishment of partnerships, albeit under the purpose of strengthening and fomenting innovation, is scantily used by Brazilian medium-sized companies.

Strategic alliances enable securing new competences by means of organizational learning and building cooperation – a temporary alliance with competitors, companies or customers having complementary technologies, products or services – creating a critical mass capable of challenging competitors and creating new opportunities. It was clear, however, that this group does not apply this strategy yet.

Barriers to innovation

Myriad variables affect corporate innovation potential. At the final stage of this paper, the research instrument sought to assess the most significant barriers to innovation, as considered by medium-sized companies.

- 31.25% of participants consider the following to be high or great barriers to innovation:
- A conservative culture, broaching no space for innovation;
- Risk aversion;
- No sponsors of innovative ideas;
- A hierarchical, bureaucratic departmental culture.

Final remarks

At the end of this explanation, the authors feel that a so-it-disant innovative company is the business concern capable of mobilizing its employees to create new routines and products that can become differentials and entail gains to the organization. A structure veered towards innovation should encourage an innovative culture, besides developing management methods that create facilitating processes, together with management indicators.

Given this scenario, the results obtained by the research effort conducted by Fundação Dom Cabral with medium-sized Brazilian companies proved what other FDC investigations into innovation have been showing: Brazilian organizations, independently from size, do not know what innovation is and how important it is to competitiveness and business lift. The findings presented in this document demonstrate that medium-sized businesses still do not walk their talk when the subject is innovation.

Considering the relevance of small businesses in the economy and also in the production chains of large companies, it is of the essence to prompt innovation to assume a lofty position within business strategies and organizational goals. This issue should be seen under a new perception, treating innovation as a priority and also as an option for growth.

The medium-sized companies investigated do not possess a clearly cut innovation direction in their business strategies, and this lack of knowledge regarding the role innovation should play can be indicated as the main reason for such low involvement. An example clarifying this fact in the investigation is the following contradiction found: at the same time that 71.2% of the participants feel that innovation appears evidently in their companies' ideology, a substantial percentage of the same respondents – 48.9% - allegedly ignore innovation incentive programs.

This corroborates the perception that, in Brazil, the creation of an innovative culture is essential such that the business community can perceive the value of innovation as a manner to yield competitive gains to the business.

Substantial progress still remains to be made as concerns innovation. Companies should advance in their culture, processes, partnerships, etc. If medium-sized companies are to grow, they should pursue more effective innovation management practices, prompting this issue to become a strategic priority. This will certainly be the success formula for the competitive leap they seek and need.

Read the full article at the Bradesco Innovation Core site - www.fdc.org.br/pt/pesquisa/inovacao/Paginas/publicacoes.aspx