

THE term "innovation" has been described with such glowing terms by both the government and companies that achieving it almost seems like finding the holy grail. For example, in his Budget speech in 2015, Deputy Prime Minister and then-Minister of Finance Tharman Shanmugaratnam said: "Every form of innovation counts, and must be supported – whether it is a new process or brand, developing online marketing or leveraging on big data." This was in the context of giving strong support to small and medium-sized enterprises (SMEs) to innovate.

No one can deny the benefits of innovation in increasing productivity to stand out in today's competitive economy, but there is a danger that SMEs may regard it as the next bandwagon to jump on without giving it serious thought.

Innovation without a bigger game plan can be expensive and pointless, so SMEs have to walk a tricky tightrope juggling costs involved, maintaining alignment with business models, and sustaining it through a culture of innovation.

NOT JUST A BUZZWORD

Innovation is essentially about doing something new, and can be classified into product innovation and process innovation. Product innovation requires companies to either develop new products or modify existing ones, while process innovation refers to new or improved production or delivery methods.

For example, new machinery can be installed to increase production rate or the manufacturing process can be streamlined to boost efficiency. A logistics system can be improved to reduce downtime while payroll processing can be computerised, freeing up manpower and lowering overall costs.

This helps businesses to achieve greater productivity by leveraging on technology to address the challenges that SMEs face in a tight labour market. These improvements also result in SMEs becoming more competitive.

"In today's world where the future of business is easily impacted by fast-moving technology trends, companies should be thinking hard about how innovation and R&D (research and development) can play a part in their business plans in improving or diversifying their products and services, or even breaking into new markets," says Liu Eng Soon, director of A*Star SME Office.

But despite the advantages of innovation, it has its limitations and can only be deployed to a certain extent. For example, once a process is designed such that it operates at optimal level, no further innovation is possible, says Sundaram Janakiramanan, finance professor at SIM University's School of Business.

It is an area particularly challenging for SMEs with limited resources. "While product innovation can lead to sustainability of business, it also requires substantial funds for research and development, product testing ... It is likely to benefit large companies with a lot of funds. Unfortunately, this is a difficult route for SMEs to follow," says Prof Janakiramanan.

GETTING INNOVATION RIGHT

BY VIVIEN SHIAO

Creating a culture to sustain innovation is just as important as installing fancy machinery and technology



VARIOUS SCHEMES

One agency that has been partnering with SMEs to achieve technological innovation is science and technology research agency A*Star. More SMEs are now having a "gradual shift in mindset" to take a keener interest in innovation, says Mr Liu.

The statistics all point towards the same conclusion: According to the latest national survey of R&D in Singapore in 2014, SMEs' R&D spending reached a new high of approximately S\$800 million, an increase of 38 per cent from 2013.

Mr Liu also points out that there are more collaborations between SMEs and public sector research agencies such as A*Star. The number of joint projects by A*Star and SMEs have increased fivefold from about 600 in 2006-2010 to nearly 3,000 in 2011-2015.

He attributes this rise in interest to increased awareness of the importance of innovation for growth, and long-running initiatives from agencies such as Spring, IE Singapore and A*Star. "However, it is also a natural business instinct to constantly seek new ideas that will set you apart from your competition and give you that edge, especially in low-growth environments," he says.

Some schemes that A*Star has to boost innovation in companies include appointing senior researchers as technical advisers, secondments for up to two years to help SMEs develop their R&D capabilities, and providing expertise to help SMEs develop customised technology roadmaps.

Such tie-ups are usually win-win for both parties as SMEs experience the benefits of embracing innovation, while researchers from A*Star learn and understand where R&D fits into a business plan and how to apply the technology for customer needs. "This helps with building up a positive mindset among SME business owners towards adopting innovation, which is the start to sustaining a culture of innovation," adds Mr Liu.

LOSING FOCUS

But while innovation has often been put on a pedestal, companies should not lose sight of the big picture. Nick Nash, group president of Singapore-based consumer Internet platform provider Garena recently said that in the long run, having a good business model is more crucial for companies than innovation.

Speaking as a panelist at The Business Times Leaders' Forum 2016 earlier this year, he shared that he has seen several business ideas start impressively, but have mostly disappeared from the scene. "In 2010, there were 25 Groupon clones that were funded. All of them have gone bankrupt, except for Groupon itself," he said. "The point here is that business model matters. Innovation in the isolation of a true business model is very, very disruptive."

While SMEs desire for innovation to keep up with their competitors, they sometimes get sidetracked along the way. Innovation becomes the ultimate goal instead of the process to achieve results. This may happen when

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A*Star has been partnering SMEs to achieve technological innovation in robotics

firms go from agency to agency searching for the right scheme to suit their needs, and get lost at the mind-boggling array of options available.

Failing to see the main picture is a problem found not just in smaller companies, but in global players as well. In a bid to overcome disruption and enhance innovation, companies lose the forest for the trees. "Most big firms have tried some sort of crowdsourcing idea-generation project, or a hackathon to address some important challenge. Many have embarked on alliances and acquisitions to tap into the latest new technologies," says Julian Birkinshaw, professor of strategy and entrepreneurship at London Business School.

While none of this is wrong, he finds that innovation projects are often done in a "fairly superficial" way, without a significant level of commitment to any course of action.

Successful innovation is not just mindless experimentation, but the ability to scale up the new business opportunity when the time is right and that requires top-level commitment, adds Prof Birkinshaw.

SUCCESSFUL INNOVATION

Not all SMEs have fallen for the hype; some have been steadily fostering innovation to boost productivity and competitiveness with their eye on the prize. One company that has made inroads with innovation is 10-year-old local SME Wavelength Opto-Electronics in the laser and image optics market. "Customers are demanding better features, better quality and lower-priced products and services. To survive, we are forced to innovate new products, solutions and processes to meet these requirements," explains CEO Robert Huang.

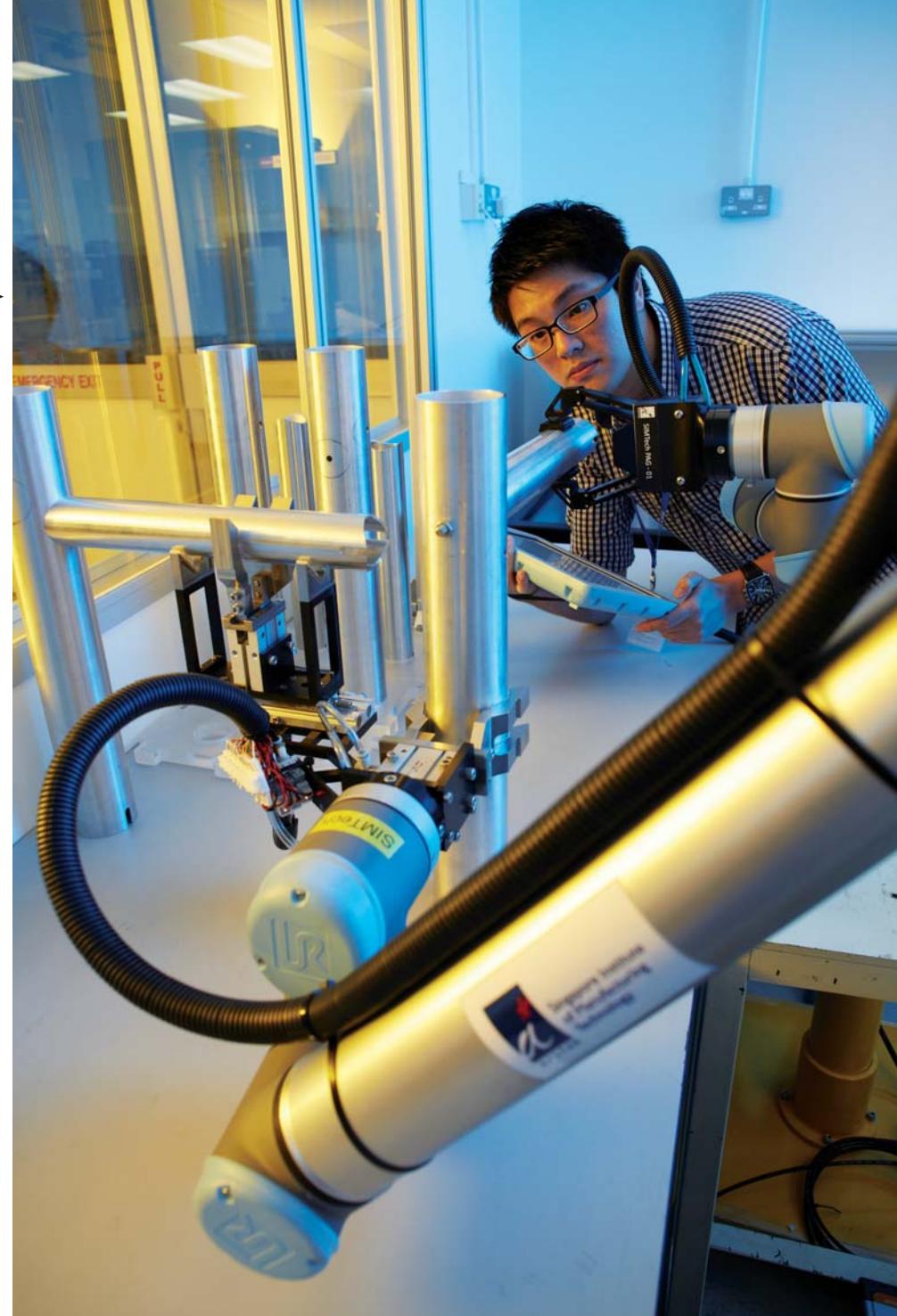
As part of its innovation push, it partnered A*Star to develop a five-year roadmap and identified several key technologies to work towards. Not only that, the company actively creates an atmosphere for innovation to thrive, which means having an attitude of accepting failure as long as they have done their best, says Mr Huang.

The company encourages innovation by incentivising and rewarding teams with a portion of their new product sales revenue or cost savings. It also has an annual innovation contest named Innovation Star Award to recognise employees who have done well in that aspect.

Mr Huang says that management is exploring other schemes such as allowing staff free time to work on their own innovation projects without bogging them down with more regular work. "Internally, we have a mission to be a leader in our industry... only through innovation can we be in such a position," he concludes. He attributes the company's innovation push for the positive impact on its bottom line: revenue has risen from S\$5 million five years ago to S\$12 million in 2015.

The importance of creating a culture of innovation is echoed by Roger Egan, CEO of online grocery marketplace RedMart. "You can't just say 'we are going to be innovative'... you need to build the foundation that fosters innovation, and that can come from your business model, but I think culture is the most important," he says.

For such a culture to flourish, the company ensures that its values embrace innovation. Mr Egan says that the company constantly questions the status quo as it is the only way to progress. "The most dangerous phrase



is 'we've always done it this way' – and you will never hear that at RedMart," he says.

This means taking risk, even if there is a possibility of failure. The company's organisational structure is designed to be optimised for speed and innovation as it empowers its teams to create their own road maps. "My co-founders and I often say that we are disappointed if a decision has to come to us as it means we are a bottleneck. If it is not a major strategic decision, our teams do not have to ask for our approval, ever," he declares.

Innovation does not always have to involve cutting edge technology or complex processes. Sometimes, simple things that improve the way things run can be just as beneficial. One prime example of RedMart's innovation involves its mode of delivery. Mr Egan says that when the company first started, they noticed that all the successful grocers over the world such as Amazon Fresh and FreshDirect all used refrigerated trucks.

But the problem is, they are three times as expensive as regular trucks. So the company decided to experiment if they could do without refrigerated trucks. After more than 300 failed experiments with various cooling technology and insulation material, they finally came up with a non-refrigerated truck solution that kept their produce fresh and ice cream frozen.

Such innovation makes the company more productive and efficient, as well as contributes to the bottom line, saving the company "a lot of money", notes Mr Egan. To sustain innovation as an organisation scales up is only possible through constant reinforcement of cultural values, he believes.

Thus, this is built into recognition, performance reviews and most importantly through leading by example, says Mr Egan.

CHARGING AHEAD

Besides looking at innovation solely as a solution to address productivity gaps, the industry transformation process needs to include the enhancement of business models, and reskilling and retraining.

Ultimately, successful companies are the ones that make it everyone's job to think about and act on opportunities for innovation. Like the examples of RedMart and Wavelength Opto-Electronics, creating a culture to sustain innovation is just as important as fancy machinery and technology.

This entails pushing more power to those lower down the organisation, simplifying structures to reduce bureaucracy and becoming more agile to respond to changes.

A company cannot just dwell on innovation, hoping that it would improve efficiency and profit margins. "To some extent, productivity and bottom line will improve, but it will only happen for a short time," says Prof Janakiramanan. "What is more important for SMEs is the creation of a suitable business model and strategy taking into account the existing competition and expected economic conditions."

Prof Janakiramanan adds that once a business strategy is in place, the company can then consider looking into possible innovation to improve the efficiency of the system. "Innovation is thus a means to increase efficiency and not the end," he concludes. ■