

Smaller firms not achieving their potential

The Irish share of exports by European small and medium-sized enterprises fell in the Celtic Tiger years, write **Frank Devitt** and **Sean McNulty**

DESPITE REPRESENTING 96 per cent of enterprises in Ireland, 70 per cent of employment, and 10 per cent of exports, small and medium-sized enterprises (SMEs) have not achieved their full potential in recent years.

The Irish share of European SME exports actually fell through the period of the Celtic Tiger, and with unemployment now at 11.7 per cent, the second highest in the EU-15 countries, it's time to urgently address this sector.

Many companies, large and small, have achieved sustained profitability and growth through innovation that is not based on new technology development. Innovation is not all about IT. The companies achieve this through improved management practices and a clear strategic focus on user or customer needs.

This approach brings faster returns and requires much less investment than innovation based on technology development. It is suitable for all businesses, manufacturing or service, large or small, public or private.

Innovation management might seem like yet another buzzword, but in practice it implements modern, world-class processes in an environment defined by user-focus, creativity, collaboration, multi-disciplinarity, openness, uncertainty and risk.

While it might seem straightforward, it turns out it's a difficult task for which many businesses are poorly prepared.

Even those who have participated in traditional management education or training programmes may not have been exposed to the most recent processes and practices of modern world-class innovation.

While "putting the customer first" is easy to say, it is much more difficult to achieve at all levels in the company.

Traditionally, product designers have been to the forefront in matching products to user needs. Now the "design thinking" approach, or questioning whether things can be improved, has become increasingly used not only in

terms of products but also services and strategies. Design thinking has become a key source of competitive advantage identified by many commentators and practised by a growing number of large and small companies.

Earlier this year, the EU Commission, in a staff working document called *Design as a Driver of User-Centred Innovation*, concluded: "The results are compelling: companies that invest in design tend to be more innovative, more profitable and grow faster than those who do not. At a macro-economic level, there is a strong positive correlation between the use of design and national competitiveness."

A really "smart economy" leverages all available assets to the greatest extent possible.

Innovation management and design thinking predominantly build on existing capabilities and assets of businesses, making them more efficient and effective, in contrast to technology development, which seeks to develop new assets in the form of technology intellectual property (IP). The innovation gestation period from R&D lab-bench to market is usually long (between five and 15 years), tentative and indirect. It is very difficult to predict, and an economic renewal strategy based on R&D

alone is not safe, effective or sufficient. Complementary capabilities are necessary.

Consider what will happen if Government policy redirects a small amount of existing national budgets from various agencies tasked with co-ordinating a programme of national capability building in innovation management and design thinking. The programme will deliver continuing professional development (CPD) of SME managers backed up by world-class research and education, and will apply to all sectors, technology and non-technology, goods and services.

We calculate that expertise exists in Ireland to facilitate 600 SME businesses each year participating in peer-group workshops exploring how to apply best practices to their businesses. These workshops could be facilitated by innovation and design experts. Outcomes will be improvement action plans implemented in the businesses over the following 12 months.

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