Culturing Success

How workplace culture drives innovation
at Australia's leading SMEs

JoinedUpInnovation

■■ Microsoft

Contents

Committed to innovation

It's my great pleasure to present this report marking Microsoft's latest contribution to furthering the innovation debate in Australia.

In 2014, we launched our Joined-Up Innovation campaign and related report, where we marshalled some of Australia's leading experts to boost the country's innovation efforts. In this report, *Culturing Success*, we maintain the focus on innovation, but we concentrate on the small to medium-sized enterprise (SME) sector.

SMEs form the backbone of Australia's economy, generating seven in every 10 private sector jobs and more than half of private sector value. Microsoft has a proud track record of working with SMEs to implement technology in a way that achieves business success.

We want people to think about the true role of innovation. Rather than being 'nice to have', innovation should be a vital element in the way SMEs conduct business, collaborate and deliver to their customers. However, as we found in our research, many SMEs struggle to innovate. While we identified a clear group of regular innovators, many others were not pursuing innovation consistently, or at all.

When we looked at the barriers to innovation, one factor that kept appearing was workplace culture. We found that some businesses were afraid of failure. Others didn't welcome fresh ideas or support their staff members' attempts at innovation. We hope this report will help SMEs overcome these sorts of obstacles because we firmly believe that all businesses have the power to shift their innovation performance.

I'd sincerely like to thank all our respondents; our dedicated and insightful research partners AMR and Michael Henderson; and our roundtable participants, who made this research possible. We appreciate your dedication and passion for innovation.

Pip Marlow
Managing Director
Microsoft Australia

Executive summary

Executive summary

What makes a business innovative and how much does it come down to workplace culture? That's the key question at the heart of this paper and one that we've sought to answer by working with the leading corporate anthropologist – Michael Henderson – and surveying more than 500 SMEs to discover what makes some businesses great at generating and commercialising ideas, and others unsuccessful or reluctant to try.

We found that when it comes to innovation, SMEs can be grouped into three main 'tribes': Leaders, Cruisers and Laggards. Only about 33 per cent of our SMEs can be described as Leaders, which means they are ahead of the pack in terms of their ability to adapt and change in response to threats and to take advantage of opportunities.

These Leaders are growing faster than their peers, are more switched on to customers' needs, are more efficient, and are quick to embrace new technology to improve business processes or develop new products and services. They also report higher staff retention and customer loyalty.

Our research uncovered six main cultural traits common to Leaders that other SMEs could pursue to enhance their innovation performance. These are a high level of customer focus, awareness of and appetite for innovation, supportive working environment, visible and involved leaders, engaged employees and authentic internal dialogues.

Of the remaining SMEs, 43 per cent can be described as Cruisers and 24 per cent as Laggards. These are often businesses that encounter cultural roadblocks – such as a lack of motivation or a fear of failure – that hold back innovation.

These issues can add to practical obstacles such as insufficient capabilities and funds, and poorly aligned business structures. As a result, the Australian Bureau of Statistics (ABS) has found smaller businesses are the least likely to undertake innovative activities and that business innovation has been declining in Australia.

This is in contrast to the gains being made in global hot spots such as Boston in the United States, which has developed an effective innovation ecosystem spanning small and large businesses and other groups.

How can Australian SMEs stuck in the Cruiser and Laggard camps become Leaders? We argue that there are at least five key strategies businesses and governments should pursue:

Evaluate performance: Businesses should audit themselves to identify how innovative they are today, with a particular focus on their workplace culture.

Establish the right culture: SMEs can make significant gains by focusing on and changing their workplace culture to unlock innovation.

Collaborate: Individual companies and other stakeholders, especially governments, can do much to build networks that improve innovation.

Be flexible: We found that innovation Leaders tend to offer flexible working arrangements to staff. Other SMEs should explore their potential to do the same.

Attract next-generation staff: Companies should take on tech-savvy workers to ensure they're up to date with the latest trends in technology and customer interaction. These might include recent school or university graduates.

Especially for Australian SMEs, the right culture serves as the essential platform for innovation and is the secret to helping businesses unlock their true potential. In our view, changing culture is attainable and all SMEs can work towards a leadership position on innovation.

Why innovation matters

Why innovation matters

When it comes to SMEs, the ability to adapt is critical to whether a business survives and thrives, or fails. As it has throughout human history, this often comes down to the culture of the 'tribe' or, in today's working world, a whole business or team within a business.

In fact, we see many similarities between the tribes of the past and businesses of today. For instance, consider the amount of time people spend in workplaces, the fulfilment many of us draw from our jobs, and the important relationships we have with colleagues. Just as leading tribes welcome and benefit from change, so do leading SMEs; just as such tribes readily adapt the way they do things, leading SMEs maintain a culture of innovation.

Innovation is also essential to our future as a smart and highly diversified economy, and SMEs have a key role to play. According to PwC, transforming Australia's SMEs to become leaders in their use of technology and innovative business processes would have increased gross domestic product by nearly $6 billion (or 0.4 per cent) in 2012–13. It would have also increased real wages by 0.5 per cent and raised revenue in the economy by $11 billion.[1]

Finally, innovation is an essential part of improving environmental and social outcomes for Australia as a whole.

Defining innovation

At Microsoft, we define innovation as the process of developing better products, services, processes and business models, and then commercialising those ideas.

This process is critical because it helps Australia grow its prosperity and stand out in competitive global markets by creating differentiated high-value products, services and business models.

As Figure 1 highlights, our research found that Australian SMEs have various definitions of innovation. Our discussions with companies also revealed that innovation occurs in a variety of areas, including formal research and development, all the way through to improving or changing internal processes, customer interactions and business strategies.
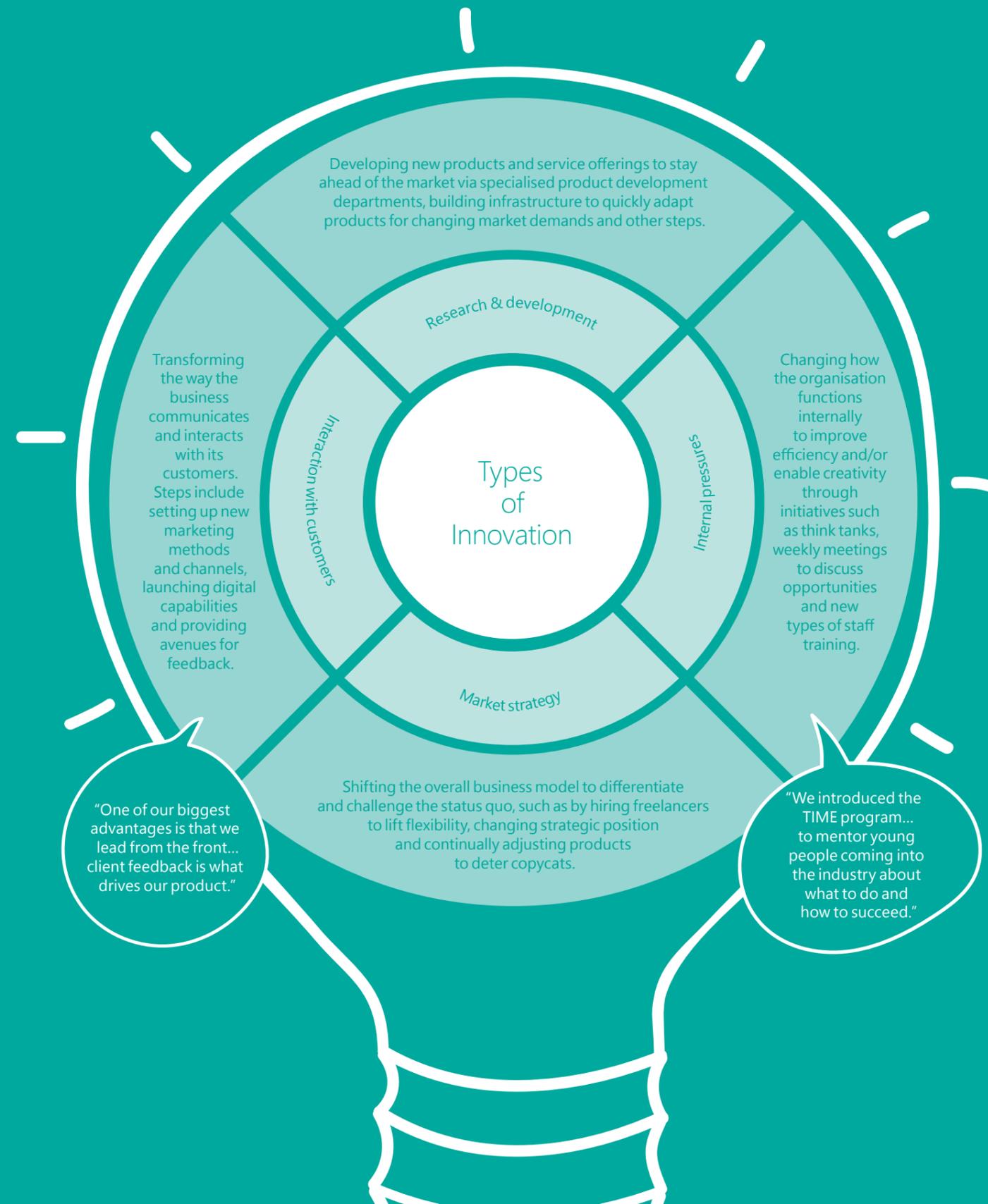
Business benefits

SMEs usually innovate to gain one or more of the following key business benefits.

First, they want to remain relevant to their markets. Having invested the time and effort to carve out their market share, SMEs want to do all they can to protect such coveted positions. They also see innovation as key to remaining on consumers' radar, and ensuring buyers are aware, engaged and loyal. Underlying these factors is the need to use innovation to keep offerings highly relevant, including by incorporating current trends.

[1]. Economic impact assessment: SME tech adoption – Technical note, *PwC, May 2014. Research report prepared at the request of Microsoft.*

Figure 1
How SMEs define innovation

Developing new products and service offerings to stay ahead of the market via specialised product development departments, building infrastructure to quickly adapt products for changing market demands and other steps.

Research & development

Transforming the way the business communicates and interacts with its customers. Steps include setting up new marketing methods and channels, launching digital capabilities and providing avenues for feedback.

Interaction with customers

Types of Innovation

Internal pressures

Changing how the organisation functions internally to improve efficiency and/or enable creativity through initiatives such as think tanks, weekly meetings to discuss opportunities and new types of staff training.

Market strategy

Shifting the overall business model to differentiate and challenge the status quo, such as by hiring freelancers to lift flexibility, changing strategic position and continually adjusting products to deter copycats.

"One of our biggest advantages is that we lead from the front... client feedback is what drives our product."

"We introduced the TIME program... to mentor young people coming into the industry about what to do and how to succeed."

Why innovation matters

Second, innovation is seen as a key element for companies wanting to pursue growth. By being innovative, SMEs can seize opportunities when they occur and potentially break into new markets.

Third, innovation can help SMEs become more efficient. They can reduce their costs and leapfrog the competition, such as by streamlining processes and aligning goals across different departments.

Finally, innovation is seen as a crucial way for businesses to contribute to society. Our respondents discussed how innovative businesses made a difference to their communities, changing people's lives. Part of this benefit related to how SMEs used innovation to address customer needs that had previously been ignored.

Obstacles

Unfortunately, not all smaller Australian companies are active innovators. In fact, the ABS found our rate of innovation recently went backwards. According to the ABS, the proportion of Australian businesses that undertook 'innovative

have tried creative ideas in the past and seen them fail. As a result, they lack the confidence to try to do things differently.

Motivation. Some SMEs said they lack the motivation to innovate. They may already dominate their market niches and are relatively unchallenged (for now) by their competitors. This means they rely on their size and position to be profitable without needing to change anything. Others said innovation can be difficult if staff members are not engaged with their work.

Structure and incentives. Some company structures do not foster the teamwork and collaboration often critical to innovation. For instance, it may not be in the employees' personal interests to help the business innovate to achieve a wider business goal.

Cost. Innovation can require substantial resources – in terms of money and people's time. Some SMEs are unwilling to dedicate such resources to more

> "There are many SME leaders who are interested in engaging in innovation but they don't always have the wherewithal to act on new ideas."
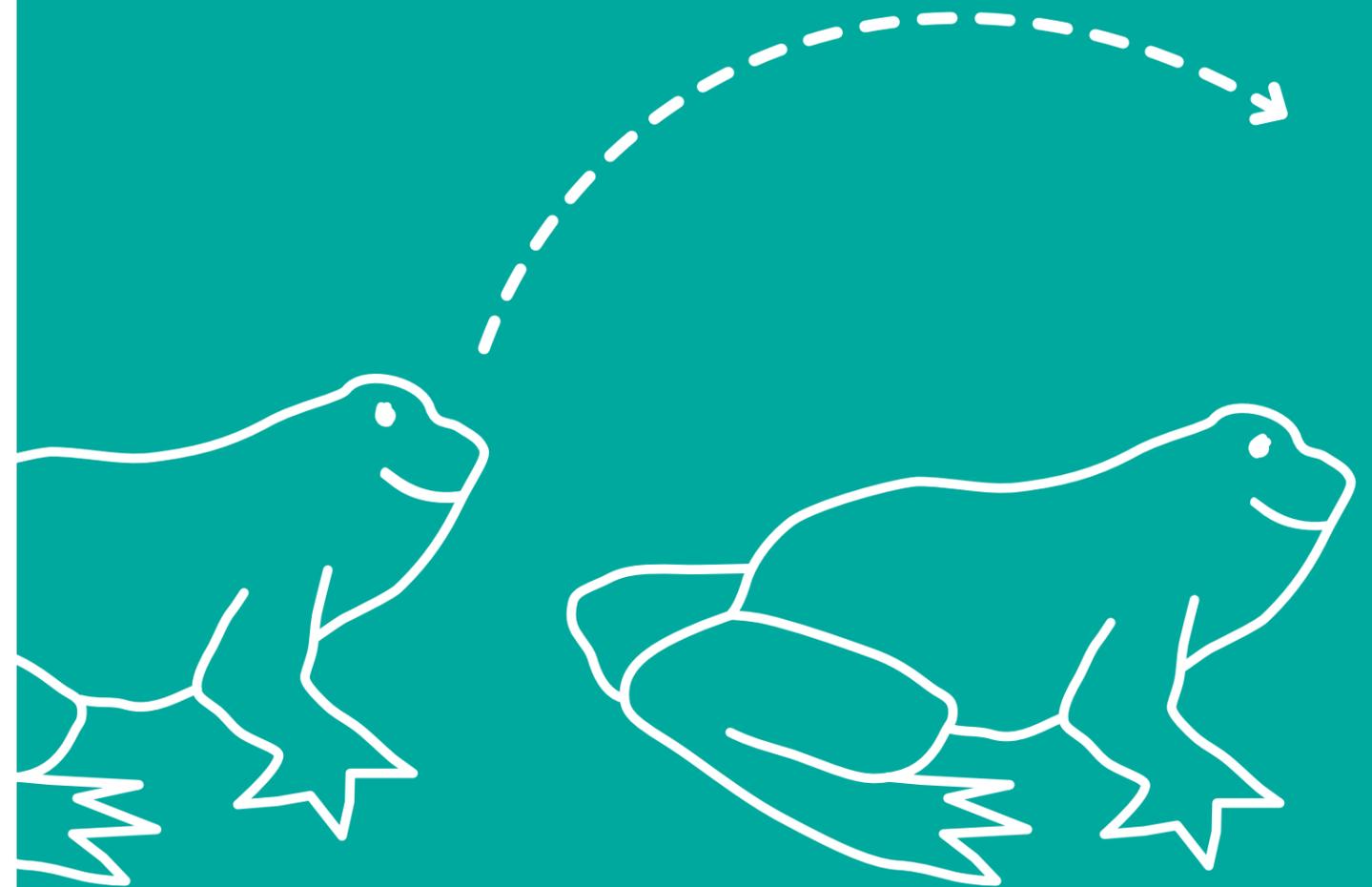>
> Roundtable participant Ellen Yang, Director of Creative Intelligence, the University of Technology, Sydney

activity' fell 5 percentage points from the previous year to 42 per cent in 2012–13.[2]

Furthermore, smaller businesses were the least likely to undertake innovative activities. Only 35 per cent of businesses with up to four staff members conducted innovative activities – compared with 63 per cent of businesses with 20–199 employees.[3]

In quizzing our respondents, we identified five cultural and practical obstacles:

Risk. A number of respondents revealed they fear failure. These businesses may

speculative ideas that may or may not pay off. In turn, businesses often won't prioritise innovative activities over current day-to-day workloads.

Capabilities. An SME may simply lack the capabilities needed to identify and undertake innovative activities. Solving this issue might require training, hiring different staff, forming partnerships or other targeted investments. Governments can also help by encouraging the development of collaborative networks and working areas, such as hubs and accelerators.

[2] ABS, '8158.0 – Innovation in Australian Business, 2012–13', 21 August 2014, www.abs. gov.au/ausstats/abs@. nsf/mf/8158.0.

[3] Ibid.

How innovation leaders outperform their peers

How innovation leaders outperform their peers

What are the key attributes defining companies that are ahead of the curve when it comes to innovation? Who are our tribe of Leaders?

We identified three main types of SME:

▶ Leaders are actively innovating, fuelled by dynamic and open workplace cultures.

▶ Cruisers have an interest in innovation, but lack the culture, tools and leadership to make it happen.

▶ Laggards are generally not committed to innovation.

From our research, we found that 33 per cent of SMEs were Leaders, 43 per cent were Cruisers and 24 per cent were Laggards.

Revenue growth and other gains

Overall, innovation Leaders perform better than other businesses. For example, 39 per cent of Leaders reported revenue growth ahead of their industry, compared with 24 per cent of Cruisers and 23 per cent of Laggards reporting above average growth (see Figure 2).

In addition, Leaders reported stronger performance on factors such as revenue, business efficiency, market share, staff satisfaction and retention, and customer loyalty (see Figure 3).

Active use of technology

Leaders also make greater use of technology. Compared with Cruisers and Laggards, Leaders are more effectively using technology to pursue innovation that improves business processes and develops new products and services (see Figure 4).

This reinforces findings from a recent Boston Consulting Group survey of 4,000 businesses across five economies showing that SMEs that actively used new technologies to improve communications and business processes created more new jobs and drove more revenue gains than SMEs that made little use of technology.[4]

4. Ahead of the Curve: Lessons on Technology and Growth from Small Business Leaders. *Boston Consulting Group report for Microsoft, October 2013.*

Figure 2

Leaders show superior revenue growth

In the last 12 months, would you say your revenue growth has been ahead of, in line with or behind the rest of your industry?

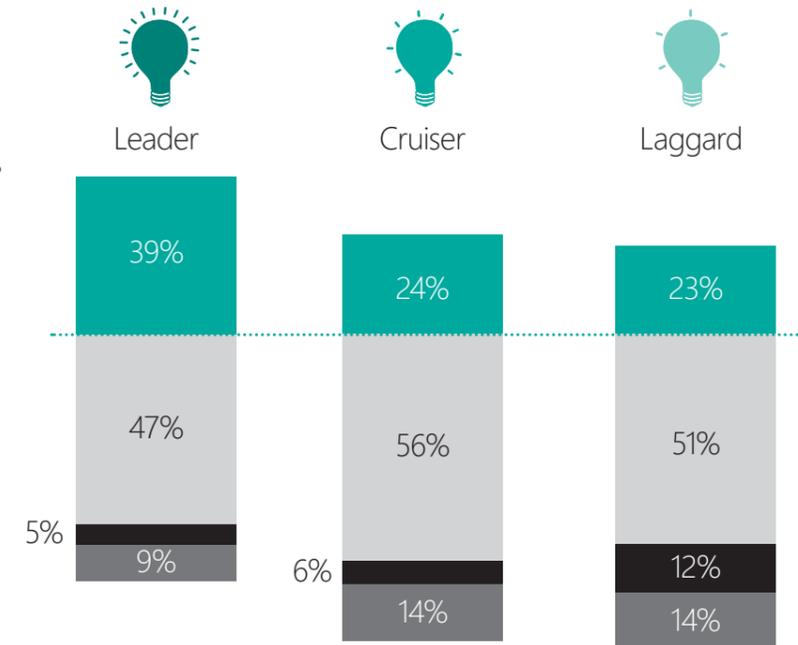
- Ahead
- In line with
- Behind
- Not sure

Source: AMR.

	Leader	Cruiser	Laggard
Ahead	39%	24%	23%
In line with	47%	56%	51%
Behind	5%	6%	12%
Not sure	9%	14%	14%

Figure 3

Business gains from innovation

To what extent have you achieved improvements in each of the following areas as a result of your engagement or investment in innovation?

- Leader
- Cruiser
- Laggard

	Leader	Cruiser	Laggard
Total revenue has increased a lot	23%	14%	11%
Business efficiency has increased a lot	36%	26%	16%
Market share has increased a lot	24%	12%	7%
Staff satisfaction has increased a lot	42%	27%	18%
Customer loyalty has increased a lot	39%	26%	15%

Source: AMR.

Figure 4

The role of technology in innovation

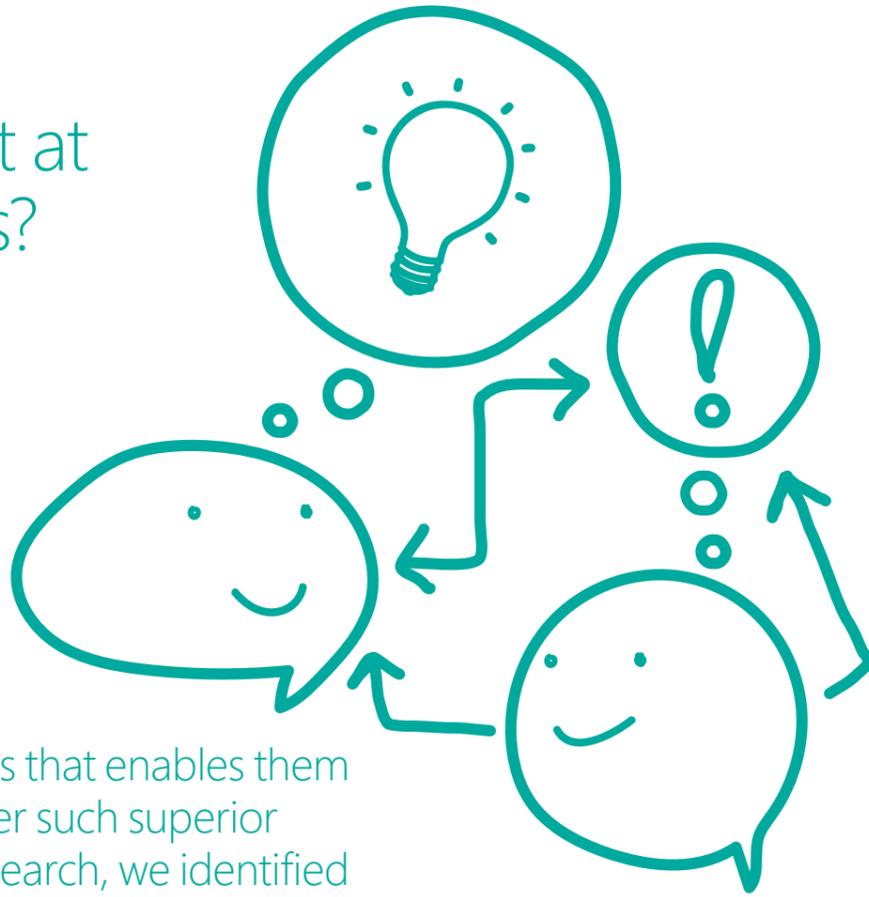*To what extent does technology play a role in each of the following areas of business?*

- Leader
- Cruiser
- Laggard

	Leader	Cruiser	Laggard
Communicating with customers	81%	78%	52%
Improving business processes/ efficiencies	75%	67%	58%
Developing new products and services	74%	53%	31%
Attaining feedback from customers	72%	51%	34%
Communication between staff members	69%	54%	49%
Enabling more flexible working conditions for staff	65%	41%	48%
Creating platforms to share new business ideas internally	51%	29%	29%
Contacting international partners and stakeholders	51%	46%	35%

Source: AMR.

What is different at innovative SMEs?

So, what is it about Leaders that enables them to be innovative and deliver such superior business results? In our research, we identified six cultural traits common to businesses that were succeeding due to innovation.

1. Customer focus

Leaders make it their business to have a deep understanding of their customers. This extends beyond knowing their purchasing habits; Leaders are aware of customers' needs and can anticipate how these requirements will change, keeping them ahead of the competition.

Leaders aim to meet customers' needs from the outset, not to maximise revenue or reduce costs. They are passionate about their product and put quality first. Sales typically follow as a natural result.

When it comes to their customers, Leaders understand the job is never complete. They have robust feedback channels in place so customers can share their thoughts and provide input into future product and service development. Leaders consider this an essential survival strategy.

2. Commitment to innovation

Leaders are dedicated to the task of innovation. They showcase:

▶ **Awareness:** They are conscious of the need to innovate and put innovation at the forefront of their thinking.

▶ **Appetite:** They have the motivation and the will to innovate, as well as a clear 'why' driving their innovative activities. This could include 'adapting to changing customer needs' or 'staying competitive in the market'.

▶ **Activity:** They have the desire to innovate, and the knowledge and capacity to make innovation happen. They allocate resources to turn vision into reality.

3. Supportive environment

Leaders have the right internal culture to drive innovation. They have an effective combination of awareness, appetite and activity (the 'three As' listed in point 2) to undertake innovative activities. For instance, Leaders tend to have flexible structures defined by open lines of communication where all ideas are welcomed. These businesses

> "Leaders make it their business to have a deep understanding of their customers."

also emphasise attributes such as collaboration, critical thinking and creativity, and have systems in place to test these ideas and potentially take them through to commercialisation.

4. Visible and involved leadership

In businesses classified as Leaders, the leadership teams are always present and supportive. In practice, this omnipresence is manifested in four discrete ways.

First, senior staff members respect their employees and value open and honest dialogue with them. We found that a number of SME CEOs had previously worked for large corporations, and value the closer connection to their staff and faster decision making the SME environment can offer. As one respondent says: "I'm constantly asking for ideas on how I can improve my management style, how to optimise my role and what people require from me."

Second, senior staff members work hard to support new initiatives and mentor the people behind them. They invest time, money and resources to support promising ideas. When employees come to them with innovations, executives give staff members the tools and authority to explore the ideas in detail and see what is possible – but do not micro-manage the process. An open-door policy – encouraging staff to pitch creative ideas at any time – facilitates this process.

For instance, as roundtable participant Andrew Twaits (Managing Principal of The Strategy Canvas) says: "Importantly, senior management also need to give themselves permission to fail. That's hard because often cash flow is tight, and they are likely to be extremely time poor – so they are naturally inclined to think, 'Oh, we had better not try this because it might have a significant impact, a negative one, on the business'. The alternative view is to consider the significant impact on the business if it succeeds."

Third, senior staff members make it a priority to break down silos and unite departments across their organisation. They understand that innovation requires input from people with a variety of skillsets and expertise, as well as the critical eye of people from different departments.

Fourth, senior staff members take responsibility for risks. If a creative venture goes badly, the business's leadership claims responsibility rather than placing the blame on individual employees. This creates a climate of trust where employees are not worried about being punished if their innovative idea doesn't work out.

5. Engaged employees

Leaders demonstrate significant engagement with their employees. Staff members respect their employers, and there is no 'us versus them' attitude in the workplace. Employees feel known and valued, and know that their ideas will be treated with respect and explored in detail.

In addition, Leaders' staff members believe they are important to the business's success. They feel responsible, accountable and autonomous, and are invested in the growth of the operation as a whole – not just their own personal development.

Finally, employees in Leader businesses are driven to succeed. They work collaboratively with their colleagues to achieve results. They are motivated by the work they do and their role in the bigger picture, rather than just the financial rewards. As a result, their personal growth is aligned with the business's growth, creating a robust platform for innovation.

According to our roundtable participants, culture was less about the dictates of management and more about how employees acted. As Graeme Strange, Managing Director of Readify, says: "Culture is not set by management. It's not what you demand it to be. It's what you do every day."

6. Authentic internal dialogue

Innovative businesses value and demand open and honest communication. As one respondent from a Leader company says: "We can challenge each other hard on an opinion and have an argument, and then get over it and be mates."

In Leader businesses, all employees have the opportunity to influence the company's strategy. This is a real cultural commitment; Leaders consistently run meaningful progress checks to seek feedback from staff members, evaluate employees' work and ask for creative input into the business. They are also selective about which opportunities to pursue.

Profile of an innovation leader:
The story of GPSports

Founded in 1999, GPSports makes wearable GPS devices that allow coaches to accurately track athletes' performance and provide more effective training.

The company displays many typical Leader qualities. For instance, its flat management structure fosters collaboration and trust, which in turn allows GPSports to evolve and better meet its customers' needs.

"There is no hierarchy, and that's why it works," says International Sales Manager Damien Hawes. "We have a lot of informal meetings, which is really where the best ideas and innovation and all the energy comes from."

The company also has a clear focus on the customer. In 2011, a customer survey showed that some users were frustrated by GPSports' reporting software. In response, the company harnessed its flat and dynamic structure to revamp its operations and overcome the challenge.

"We realised at that point that we couldn't just improve what we had and sell it as new – we had to start from scratch to overcome the fundamental flaws in our product," says Hawes. "So we turned off spending across the board and pumped all our money into developing the absolute best product we could build."

Hawes believes the business's workplace culture has allowed it to outpace much larger rivals.

"Culture is everything when it comes to innovation," says Hawes. "GPSports balances strong support networks and healthy competition with a high level of autonomy among its staff to create a workplace culture that breeds creativity. I think the fact that each of us is both happy and challenged is really what allows us to succeed as a company. Without that culture, we would not have the people or the products we do today."

What holds back cruisers and laggards?
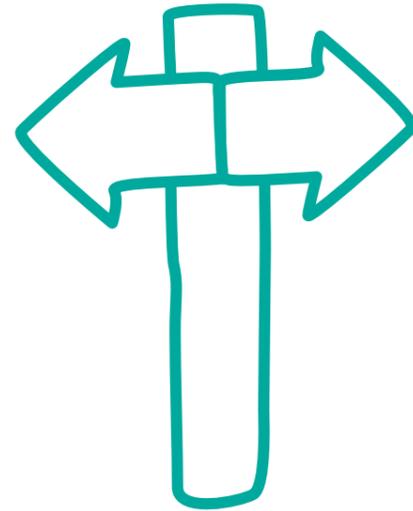
As our research found, not every SME is a successful innovator. This section takes a closer look at the two segments that have room to improve when it comes to innovation.

Cruisers

Innovation Cruisers have an appetite for innovation, and they may even have a set of promising creative ideas to choose from. But they typically under-deliver on innovative activities compared with Leaders. Why is this?

Roundtable participant Janine Lay-Flurrie, founder and CEO of 100 Mums, discussed how many businesses felt the pressure to conform, which could stifle innovation. "We're only a couple of years old, but there's pressure to conform, to stick with what we know and what works, even though we need to keep innovating to be successful," she says. "Once you have money coming in, you don't want to take your eye off what is generating cash flow. Investors are also wary of exploring a path that was not in the original business plan."

First, in Cruiser organisations, business leaders lack the drive to see innovative ideas through to fruition. We found this was partly due to an unwillingness to divert resources from regular workloads and toward innovative activities.

Second, there is a fear among some Cruisers that innovation efforts may fail, which could create unpleasant consequences for decision makers and other staff members. As one respondent told us: "I think because of failures in the past they had more of a 'let's not mess up again' attitude." If an idea is perceived to be too hard or costly, Cruisers will often retreat.

Third, while Cruisers' employees feel engaged in their work and are working towards a goal, staff members generally do not understand how their activities feed into the overall business strategy or purpose.

Finally, Cruisers' workplace structures do not foster innovation. Despite theoretically supporting flexible work conditions, Cruisers often fail to put this into practice due to a lack of trust in their staff. Furthermore, Cruisers lack the leadership to align goals and activities across departments, which constrains company-wide innovation efforts.

Cruiser profile:

An expert but not an active innovator

This consultancy assesses the health and safety standards of corporate and consumer environments, then recommends and implements improvements. The majority of its work is compliance-driven, but it also provides expert analysis in public liability cases.

The company's industry is very competitive; it tries to stand out by being an expert in its field and by encouraging collaboration among its diverse staff members – the business employs experts in hazardous materials, a technical manager and qualified technicians.

The company's main form of innovation involves helping its clients distinguish between their perceptions and the reality of the situation.

However, the business may be resting on its laurels. It is almost exclusively focused on day-to-day operations and is not actively exploring new ideas or revamping its processes in response to changing client needs. There may be scope for decision makers to divert staff members to work autonomously and explore creative ideas that have commercial potential.

What holds back cruisers and laggards?

"Laggards are typically characterised by siloed departments vying for budgets, and there is an overall focus on individual gain rather than teamwork."

Laggards

In contrast to Cruisers, Laggards generally have little or no appetite for innovation. Even though their operations may be profitable, Laggards struggle to articulate what innovation means for their business, and they do not feel motivated to innovate.

Why are Laggards so far behind on the innovation front? Our research identified three key characteristics that are holding Laggards back.

First, there is a distinct lack of trust between employees and the leadership team. Employees don't feel their company is open to new ideas and, in general, the business is focused on short-term gains rather than long-term opportunities. In this environment, it is very difficult to establish collaborative relationships between employees.

Second, Laggards' business structures preclude innovation. Laggards are typically characterised by siloed

departments vying for budgets, and there is an overall focus on individual gain rather than teamwork. Innovation is usually tied to fulfilling key performance indicators, rather than being more organic and encouraging authentic creativity. As one respondent told us: "Business culture is driven by us and is about being 'lean' ... this doesn't leave a lot of room for creativity."

Third, Laggards are often averse to change. They may already be successful and profitable in their market, so there is little apparent incentive to innovate and undertake activities outside the norm. This attitude can be summarised as 'Why change a good thing?' or 'Why fix what isn't broken?' However, this mentality can hurt Laggards' long-term competitive position, as employees can disengage from their existing work and lose sight of how their jobs contribute to the business as a whole. An example of this attitude can be seen in one comment we heard: "We are too busy delivering to spend time on that."

Innovation not on the agenda:
# The tale of a laggard

This SME imports and distributes products which it sources from overseas and sells wholesale to retailers. The SME's business model largely relies on it owning the sole rights to import these popular products; it does not offer any added value to retailers or their customers.

This is an example of a company that has almost shunned innovation. If the SME lost the exclusive rights to the products, it would be left without a monopoly and could be forced to fold. In addition, the company is highly dependent on one key person – without their input, the business would struggle to run smoothly.

To combat its dependence on specific products and people, the SME could seek out innovation opportunities, perhaps starting by developing an in-depth understanding of its customers' needs at the wholesale and retail level. This SME may also need to overhaul its workplace culture to create the right platform for innovation.

The way forward: shifting cultures to unlock innovation
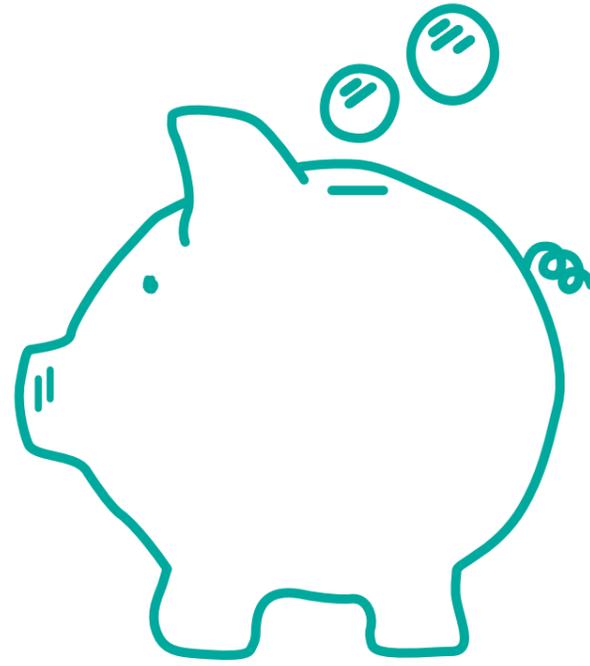
Based on our research, we believe that every SME can enhance its innovation efforts. The Laggards can cherry-pick from the best practices demonstrated by the Leaders and build a more innovative environment.

Even Leaders may have room to improve, including by developing a workplace culture that more actively welcomes creative ideas. Every improvement will add to Australia's ability to grow as a smart and diverse economy.

Indeed, this is the core point of our report. While we wanted to survey the current state of play in terms of innovation among SMEs, we also wanted to give all SMEs some practical strategies to help them undertake more innovative activities and build a sustainable competitive advantage. In this vein, we have devised five strategies SMEs – and those involved in supporting and regulating SMEs – can consider and potentially implement.

1. Evaluate the current innovation situation

The first step in improving any business's innovation efforts is to understand how it is currently performing. We recommend SMEs undertake a comprehensive innovation audit, encompassing current activities and the cultural traits within the business. If possible, it may be valuable to rank the business's performance against peers to identify priority areas for improvement.

2. Establish a culture that supports innovation

As discussed in the report, culture is a major point of difference between Leaders, Cruisers and Laggards. As Figure 5 shows, addressing cultural barriers and creating the right environment can improve SMEs' innovation activities.

Boston
A model for top-down innovation

Cities haven't always been case studies for innovation. Hampered by ageing infrastructure, growing citizen needs and budgetary pressures, major urban centres often struggle to do things differently. Yet the American city of Boston has undergone an innovation-driven revolution under the late Thomas Menino, the city's longest-serving Mayor, who stepped down in 2014 after 20 years in the role. He understood the power of innovation, and put in place initiatives that would help the city deliver benefits to all citizens.

The Mayor's office

Within his own office, Menino created the Mayor's Office of New Urban Mechanics (MONUM), a civic innovation group that pilots experiments with the potential to improve the city's services. MONUM's work is innovative and diverse. For instance, in 2011 MONUM partnered with Code for America to create a web app that helped parents easily find out which public schools their children were eligible to attend – formerly a labour-intensive process.[5]

Innovation District

Menino's Innovation District initiative has transformed prime South Boston waterfront space into an urban innovation hub. The district is underpinned by three key principles: to be an urban lab that tests ground-breaking technology; to offer sustainable leadership to drive sustainable growth; and to deliver innovation that benefits all citizens. Since its introduction in 2010, 5,000 new jobs have been added in more than 200 companies, with around one in five new jobs in creative industries (such as advertising and design).[6]

MassChallenge

An additional element is MassChallenge, the world's largest start-up accelerator. The Boston-based organisation has built a global reputation for helping innovative start-ups realise their potential. Since 2010, MassChallenge has accelerated 617 start-ups; in turn, these businesses have raised US$706 million in funding, generated US$404 million in revenue and created close to 5,000 jobs.[7] MassChallenge is now looking to expand to other countries.[8]

We believe Australia and its SMEs can follow Boston's lead in applying these elements by:

▶ implementing a top-down vision backed by senior leaders

▶ driving collaboration between all elements of the ecosystem, including the public and private sectors

▶ creating 'creative collisions' by giving organisations and businesses cutting-edge collaborative spaces

▶ accepting failure – to fail fast and then change direction.

5. Schrekinger, B. 'Boston: There's an app for that', Politico Magazine, www.politico.com/magazine/story/2014/06/boston-theres-an-app-for-that-107661_Page2.html#.VNl_fkIxGi5.

6. Boston's Innovation District, www.innovationdistrict.org.

7. MassChallenge, www.masschallenge.org.

8. Szaniszlo, M. 'MassChallenge starts up 2015 with lots new', 1 February 2015, Boston Herald, www.bostonherald.com/business/business_markets/2015/01/masschallenge_starts_up_2015_with_lots_new.

The way forward: shifting cultures to unlock innovation
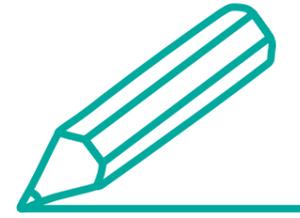
Figure 5: The fundamentals of an innovation culture

Barriers to innovation	Culture that supports innovation
✗ Ideas not actively encouraged	✓ Less rigid hierarchies to allow for an easy flow of ideas
✗ Employees 'forced' or unnaturally pushed to come up with ideas	✓ Open lines of communication
✗ No process to drive ideas through to realisation	✓ 'No idea is a bad idea' philosophy
✗ Employees invested in immediate goals, not overarching business goals	✓ Flexible working conditions
	✓ Employee engagement with business vision
	✓ Systems in place to carry ideas through to realisation
	✓ Conscious effort to employ creative staff

Source: AMR – qualitative research.

3. Create innovation-orientated collaborative networks

Some SMEs may need help turning their appetite for – and awareness of – innovation into action. SMEs could access expert advice by consulting with more established peers or key technology partners to explore potential areas of improvement – such as using technology to better connect with customers, and encouraging staff members to come forward with new ideas. In addition, shared working spaces can help build these networks on a daily basis, particularly making connections between businesses that may not have traditionally collaborated (see Boston case study on previous page).

4. Encourage flexible work practices

Flexible work practices are common among innovative SMEs. In recent years, governments have worked to highlight the benefits of more flexible working conditions; at the same time, advancements in technology are allowing workers to be productive from almost anywhere. We believe that governments should do more to encourage flexible work practices among SMEs, including freeing up their own workplace arrangements.

This could deliver substantial benefits for SMEs and the economy as a whole, by boosting productivity, increasing workforce participation and creating new employment opportunities.

5. Attract next-generation staff

According to our research, Leaders are enthusiastic users of technology. This helps them connect with customers and develop their creative ideas. Ideally all SMEs should be harnessing the power of technology, but many lack the time and expertise to do so. One way to gain this expertise would be to better connect SMEs with tech-savvy school leavers and university graduates. This would help enable SMEs to bridge technology gaps and make it more attractive for people to start their careers and gain experience at smaller businesses.

About the research

Part two: Quantitative research

In the second stage of the project, we surveyed 500 SMEs (3–199 employees) across Australia to delve deeper into the segments and findings identified in the first stage.

We created, validated and quantified the segmentation of businesses into Leaders, Cruisers and Laggards – based on their levels of awareness, appetite and activity. We also refined our understanding of the cultural characteristics that drive Leaders and what sets them apart from the competition.

Part three: Roundtable discussion

We invited a select group of business leaders, academics and innovation experts to a roundtable to discuss the quantitative and qualitative research findings. Their comments are used throughout this paper and shaped our recommendations.

Our research project can be divided into three components.

Part one: Qualitative research

The first stage of the project involved in-depth qualitative interviews with personnel from 20 representative SMEs. Our research partner AMR and panel member Michael Henderson conducted these hour-long interviews, which involved senior decision makers from selected SMEs.

The interviews examined how each business defined innovation and what it was undertaking in terms of innovative activities. We also asked respondents about the barriers to innovation. We then grouped the businesses according to their cultural traits – their awareness, appetite and activity in the context of innovation. From there, we segmented the SMEs as Leaders, Cruisers or Laggards.

Figure 6: Breakdown of respondents

Sample base sizes

Respondents were from businesses with between three and 199 full-time equivalent staff. The sample was designed to be representative of Australian SMEs in terms of industry sector and location. The results have been weighted to reflect the representative split of businesses with 3–19 employees and those with 20–199 employees.

Industry	
Agriculture, forestry and fishing; mining; electricity, gas and water supply	36
Manufacturing, construction, transport storage and logistics	123
Wholesale and retail trade	88
Finance and insurance; property and business services; communications services	132
Cultural and recreational services (including hospitality); personal and other services; education; health and community	112
Government, public administration and safety	9

Respondent state	
NSW and ACT	170
Vic and Tas	140
Qld	100
WA and NT	55
SA	35

Business size	
3 to 19 employees	350
20 to 99 employees	100
100 to 199 employees	50

Our research partners

One of Australia's leading locally owned research consultancies with more than 20 years in research, consultancy and advice, AMR regularly conducts research studies on corporations, governments, countries and cities. AMR gathers in-depth data and provides insight which informs business and government strategies. AMR is part of STW, Australasia's leading marketing content and communications group.

Michael Henderson
Corporate Anthropologist

Michael has studied traditional and organisational cultures in more than 40 countries and has a deep understanding of how to master workplace culture. He is also the award-winning author of five books on the impact and benefits of mastering company culture: *Leading through Values, Values At Work, Finding True North, Get Tribal* and *Thought Leaders*.

Roundtable participants

Trevor Day	Deakin University – Pro Vice-Chancellor, Faculty of Science, Engineering & Built Environment
Damien Hawes	GPSports Systems – International Sales Manager
Hamish Hawthorn	ATP Innovations – Chief Executive Officer
Janine Lay-Flurrie	100 Mums – Founder and CEO
Mark Leigh	Microsoft Australia – Marketing & Operations Lead
Pip Marlow	Microsoft Australia – Managing Director
Jim Minifie	Grattan Institute – Program Director, Productivity Growth
Jason Ryning	Microsoft Australia – Director, Legal and Corporate Affairs
Graeme Strange	Readify – Managing Director
Andrew Twaits	The Strategy Canvas – Managing Principal
Ellen Yang	University of Technology, Sydney – Director, Creative Intelligence
Michael Young	Transformed – Managing Director

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