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PHOTO: REUTERS

3 steps to innovating without denting profit

SMEs can juggle short-term needs and long-term aspirations. BY ALEX TAN TAI LOONG

HOW can an organisation be more innovative, without sacrificing profits? This question, I imagine, is top of mind for small-and-medium-sized enterprise (SME) owners in Singapore as they grapple with business uncertainty and the government's exhortations to improve worker productivity and transform Singapore into an innovation-driven economy.

In fact, a recent survey, conducted by the Singapore Chinese Chamber of Commerce and Industry and NUS Business School academic Sarah Cheah, found that only about half or less of the 233 SMEs surveyed are trying to innovate, with less than 35 per cent having invested in innovation in the past two years.

For typically resource-stretched SMEs, it is challenging to juggle short-term profit needs with longer-term aspirations of capitalising on new opportunities. Consequently, many companies may just focus on incremental improvements that improve efficiency and quality, and neglect investing in innovation that can bring about future gains.

I have three suggestions for how business owners and managers can be entrepreneurial yet pragmatic, pursuing innovation and current business priorities simultaneously. These are drawn from my research, the study of best practices, and feedback from business owners and managers of SMEs in different industries.

First, separate innovation activities from the rest of your business. Second, encourage a culture of entrepreneurial thinking by focusing on your given set of resources to imagine new possibilities. Third, test your assumptions in the market quickly and repeatedly, so that if you do fail, you will fail fast, and fail cheaply.

KEEP INNOVATION OUT OF THE DAILY GRIND

An acknowledged starting point to promote entrepreneurship within a company is to design organisational structures which allow for entrepreneurial activities. A separate business unit for that purpose can range from an independent "startup champion" within the company to teams who have the autonomy to brainstorm and execute new ideas. For these units dedicated to innovative activities, establish different targets and reward systems. The more uncertain and unknowable the environment the business operates in, the more autonomy should be given.

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With a separate business unit, delegation and empowerment of decision-making will belong to the entrepreneurial team. It will allow for innovation that is independent of the current strategy and business policy of the company.

However, this is only the first step. SMEs still must find a way to cut through persistent time and resource constraints, and experiment with new ideas and innovate in order to grow.

PROFITING FROM S\$5 AND 2 HOURS

In an entrepreneurship class that I taught to university students recently, I challenged them to make as much profit as they could with only five dollars and two hours. Typically, the most creative and profitable teams never used the five dollars. Instead, they thought about what they could do to make money if they started with absolutely nothing. For instance, one group of four students took orders from business school staff during lunchtime to purchase and deliver lunch from a popular food truck outside campus. They charged S\$2 per order and made over S\$80, or 1,600 per cent gross profit for their efforts.

This bears an important lesson for managers, who typically identify goals, such as "the next big opportunity" for their industry, and then seek to discover the fastest, cheapest and most efficient means – given possible resources – to achieve the specific goal.

The problem with this approach – which in managerial speak is referred to as "optimising strategy" – is that it assumes that the environment is predictable. But this is untrue as the economic environment is complex and business models are changing very fast. It also assumes that the company is a price-setter which SMEs, by virtue of being small, are not.

Entrepreneurial thinking starts with identifying the resources which are readily available, and subsequently identifying goals that emerge from the imagination and different aspirations of business owners and managers, as well as their interactions with customers, suppliers, business partners, and potential investors.

This means SMEs should focus on what they can do with as few resources as possible to create their own unique opportunities. By doing so, they control the innovation process as it evolves, and invest only what they can afford or are willing to lose at any stage.

Implicitly, entrepreneurial thinking emphas-

ises human agency as the prime driver of opportunity, rather than entrepreneurship being dependent on discovering new ways of exploiting exogenous factors such as technological shifts and socio-economic trends.

If one believes that all human beings have creative potential, then employing entrepreneurial thinking simply helps unleash creativity in a systematic way.

FAIL FAST, AND FAIL CHEAPLY

Entrepreneurs go all out to make success happen against low odds. They recognise that failing is part and parcel of venturing well, and therefore do not seek to avoid failure. The most experienced entrepreneurs with the big hits try to keep failures small and have them happen early, and then build upon them for future success.

SMEs can replicate this by creating so-called "lean startups". The fundamental activity of a startup is to turn ideas into products or services, evaluate how customers respond, and then learn whether to change or carry on. All successful startup processes should be geared to accelerate that feedback loop.

The central kitchen concept debuted by eight well-known Indian restaurants in Singapore recently is an example of how SMEs can quickly testbed an innovation to see if it works. Validation will come in the form of customers continuing to enjoy their food and patronising the restaurants, which can continue to operate in spite of manpower shortages.

Companies need not spend months waiting for a product beta launch to change company direction. Plans can be adapted incrementally – inch by inch, minute by minute to keep costs down.

Speaking at a conference by the Institute of Policy Studies and the Committee on the Future Economy last month, Minister for Trade and Industry (Industry) S Iswaran said that the government can play a significant role in identifying sectors that have the best chances of succeeding, based on an analysis of trends in the economic landscape and the capabilities of players in the economy.

But the government can only do so much. For these larger enabling strategies and resource investments to ultimately add value to the Singapore economy, our SMEs need to be more entrepreneurial and innovative.

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