Taking the innovation route to becoming an MNC

Q: How can SMEs grow to become regional and global multinationals?

A: Every large company, whether national, regional or global multinationals in its market focus, started small. Hence, there is no reason why a small and medium enterprise (SME) cannot architect its growth.

Let us first examine the attributes of SMEs. The first and foremost strength has to be the enterprising spirit of the founders. The founders decided to pursue a non-traditional career path and be in control of their own destiny by starting a company.

The second most important strength of an SME is its focus. SMEs almost always start with a specific area of specialisation in a chosen industry. The third important strength is its agility. Given its relative small size and flat decision-making hierarchy, even most critical and strategic decisions can be made in a matter of days if not in a matter of hours.

The three key reasons why some SMEs may find it challenging to grow are leadership and leadership style, obsession with the bottom line, and a lack of knowledge to architect growth. Let us discuss each of these aspects in greater depth.

Almost all SMEs are established by individuals who want to be in control of their own destiny. Such founding CEOs are seen or perceived as all-powerful by their employees since they are the sole decision makers in their companies. I have come across some founding CEOs of SMEs who were all full of praise for young SMU students with whom they attended a class on innovation and innovation management together.

The CEOs lamented that their employees were often too afraid to challenge their views since the former were the sole decision makers. So they found it refreshing that SMU students did not hold any fear when voicing disagreements and offering alternative views.

The employees' apprehension in voicing their disagreements or suggesting alternative solutions to a problem is often the result of leadership style. Employee inputs will certainly flow freely when SME leadership allows for transparent and open discussion on various operational or business issues. A transition from a family business management style to a professional management style can create an open environment for more active employee participation in key company matters. This is not necessarily a suggestion for founding CEOs to replace themselves with professional business managers, but merely a suggestion that they could perhaps modify their leadership style.

SMEs are often highly focused on cashflow management with respect to their current projects. This is generally referred to as "keeping the lights on" style of management. While it is very important to ensure that the company remains financially healthy, it is also critical for the founding CEOs to spend some time formulating strategies for growth. This can be easily achieved by recruiting or grooming from within a senior employee equivalent to chief operating officer, who is empowered to run the day-to-day operations. The CEO can then devote time and energy charting the company's future directions - deciding whether to enhance, extend, expand, and where necessary, exit its offerings as outlined below.

The CEO can exercise an exit option when a product or service offered by the company has become unprofitable and hence is time to let go. This will typically be products in a sunset industry where the company is already a market trailblazer.

Enhancement adds functionality or features to the current offerings to improve business performance. The former refers to tweaking existing offerings to cater to the demands of customers. Changing existing offerings just because the competition does so will turn out to be futile. Improving internal business processes to reduce manufacturing or service deficiencies can result in improving business performance. SMEs can adopt any of the several process innovation methods to remove or minimise deficiencies in order to ensure that productivity is increased while reducing waste. Such efforts are likely to increase the company's profitability without any major contribution to increasing revenue.

Expansion is a strategy when a company adds a new product or service offering to its existing lines or decides to enter new geographic markets. Expansion into uncharted territories may well require regionalisation or localisation of the offerings to match the needs of customers in these new markets.

Sometimes, SMEs face revenue saturation from its current lines of business. In such a situation, the SME should consider extending its lines of business or creating new business models. In creating a new line of business, one can achieve either organically or through mergers and acquisitions. Creating a new business model such as offering an on-line purchase, as opposed to face-to-face, brick and mortar sales is best done organically. History has shown that if a company is unable to seize a new transitional opportunity, it opens the door for its competition. Amazon was created when the traditional bookstores failed to grasp the myriad of opportunities arising from the advent of e-commerce.

SMEs are often left wondering how to arm themselves with the competency to enhance, expand or extend their offerings. This is best done through training its top level employees on innovation methods and innovation management principles. Such training is most fruitful by instilling a mindset of innovation management process within the company.

We wish all SMEs happy growth.

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