

Innovation & Entrepreneurship : Debunking 5 Myths

In 2001, a research group in Chicago looked at hundreds of manufacturing companies in crisis and asked a question: Is the loss of manufacturing in the US inevitable because of globalization and new technology? What are the causes of this collapse? They found out that most companies did not lose to global competition: most had out of date products; large companies focused on short term results over long term competitiveness; those that were public were bought by investors who knew zilch about their business but were there to make a fast buck so much that in a 10 year period, some companies changed hands 5 times. Still 90% of the companies are privately held with less than 100 employees. The major hurdles for them: succession in ownership, weak management, employees with no adequate training. All that in a world that is changing fast. Looking at this picture, even without the Chinese, those companies were assuming that because it worked in the past, it would continue to do so and that is usually the beginning of the end.

So in this context, it is important that businesses and communities understand that innovation is not something new, that suddenly we need to tackle this because of the Chinese or the Indians or because we are in a high tech world, etc. No it's because, as Peter Drucker said it so well: "if you don't understand innovation, you don't understand business". Innovation is encompassing, it is not R&D, it is not high risk, or small and new. It's your reaction to change and your way of exploiting it. Let's remember that the average life of a company on the S&P list is around 10 years. Only 5 companies remain from the original Forbes 100 list published in 1917 (Procter & Gamble, GE, DuPont, Ford, GM). A lot of reasons are given for businesses failing but when we look closely, we find that most of the times their premature death is because of their inability to adapt to a changing environment. CEOs work with assumptions about the world out there which are no longer in tune with the reality.

So by now we know innovation is your lifeline. But if you don't do it right and you have your concepts all mixed up, you will still think you're innovative while you're distributing pink slips. Before going further, I would like to stress the origin of the concept of entrepreneurship. Fundamentally, entrepreneurship stems from a theory of economics and society which sees change as normal and good. The first to have come up with the term "entrepreneur" 200 years ago is Jean-Baptiste Say (French). He defined it this way: "*An entrepreneur shifts economic resources out of an area of lower yield to an area of greater and higher production yield*". How do they do that? By innovating. Innovation is the tool of the entrepreneur.

Economic developers have all heard the usual rhetoric on innovation & entrepreneurship and yet, because of misconceptions or "one minute solution" or success stories, one is ill prepared to commit resources where the sources of innovation reside. Also, most of the literature on entrepreneurs and innovation

often glorifies specific personalities or sectors and although it is great entertainment, this is hard to reproduce in other environments because they don't articulate the essence of what is entrepreneurship and innovation so you can apply it in other types of settings and situations. Let's start by what Flaubert used to call: "*les idées reçues*" (accepted and non challenged wisdom) on innovation and entrepreneurship.

Myth 1- Innovation is R&D, product development or high tech

Most people, when they think about innovation, have a picture of a lab genius concocting a new formula for some product or process. There is no doubt that computers, telecommunications, biotechnology, are important but they represent a very small contribution to GDP (1% to 2% in the USA). High tech has not been able to replace the jobs lost by the old industries. If high tech was so great, real wages and salaries would have grown (because of the supposed productivity...) but, in North America, they have not. Nevertheless, high tech and R&D make interesting headlines and nice stories. That's for the big picture.

Now from a closer standpoint, to view innovation as an R&D operation is like mistaking the tree for the forest. They are in fact looking at invention: a better product or service ("a better mouse trap"). Innovation demands, among other things, that you ask: a better product for whom? What constitute a better product? Like Drucker said: "There are two things a business must do: innovate and market". In Canada for example, we praise the R&D tax credits system and in some ways it encourages risk-taking but it also sends a signal to the company that this is the area they should focus on (over others) and will be rewarded. As we can see, the customer is often the missing link in these companies heavily relying on R&D tax credits. And no customers, no business.

Innovation occurs because change occurs and it concerns every type of industries. It makes demands on all areas of the company and organization to better service their customer and even better, create new customers in the future. By focusing heavily on this trend (the high tech sector), we have put a lot of resources on a sector that does not produce a lot of jobs (or profits, if you take into account the 2000 correction and the accounting fantasies, there is not much to write home about). We have also forgotten that the manufacturing sector for example needs to innovate to stay in business and not just in product development but in all other areas of the company. With this opposing view of the old economy versus the new economy, we have just fell for yet another story and time will tell if we can innovate our way out of this one.

Myth 2- Innovation = small and new

3M, Federal Express, General Electric, McDonald's, Procter & Gamble, etc. Just that list indicate that large companies can be (and are) as entrepreneurial as any small business. It is not the size but the behaviour toward change and the systematic search for opportunities that are critical. If the organization is very

bureaucratic, small or large, it will be difficult to be innovative as this type does not like change too much. I worked in a high tech start up and “official memos” were the way to communicate with employees (and we were 10!). So by thinking that innovation is a small business thing, economic development organizations (and educational institutions) overlook the fact that it concerns all their businesses in their region. No matter the size or the sector, your companies should understand and practice innovation in all areas of their business if they want to thrive (and not merely survive). Because we associate innovation with small, we tend to think that it is chaotic or personality based. It could not be further from the reality: successful companies have a disciplined process in place challenging their old assumptions about their firm, their offer, their market and looking systematically for opportunities. Moreover, entrepreneurs are mostly employees not solely business owners although it is easier to identify with them (Bill Gates, Steve Jobs, Ray Kroc, etc.). If they have a nurturing environment and since they are closer to the customer, it is then logical to realize that many innovations come from employees.

Myth 3- Innovation is a flash of genius

Again, that makes nice stories, we all want to believe in Thomas Edison’s great abilities but if Edison was a great inventor, they actually had to remove him from his ventures as he could not manage them and see the results through. Innovation does not happen because you think about it. Innovators are curious and they do the grunt work to investigate, ask questions and act on it. To do that they have a process in place (even if with some it’s not explicit, when you look closely, they have a methodology to make it happen), they don’t sit around waiting for the inspiration to come. The flash of genius perception echoes this tendency also to “personalize” this issue: we think that entrepreneurs are born not made. But I have met all kinds of different types of successful entrepreneurs, with different styles and examples abound around us as well. For sure there are general rules that we find in these people but nothing that is so radically unique: an open mind to change, being comfortable with uncertainty which is the essence of decision making, willing to learn a disciplined process and apply it on a regular basis. They are also very focus on the results and less on activities. Innovation has a purpose for them (they are not in love with their products or services, in fact; they often challenge very early a new product/service they put on the market).

Myth 4- Innovation is high risk or entrepreneurs are high risk takers

If you ask people what an entrepreneur is, they will almost picture him as a gambler in a Casino. Or they look at the casualties in the high tech business and they think this is very risky. This sector seems indeed to be riskier than others but what often happens is that they lack “management discipline” (as for them, this is only for “big business”) to ripe the benefits of their venture.

Like Alan Weiss and Michel Robert state in their wonderful book “The Innovation Formula” (1988): “*While entrepreneurs are indeed risk-takers, they are prudent-risk-takers*”. Entrepreneurs take calculated risk meaning they think and analyze the risk they can afford to take in light of the return on the innovation. In shifting resources from a low yield to a higher yield area, there is always a risk that it won’t be a success. But if you compare this risk to staying in the lower yield area, i.e. optimizing what already exists or fixing problems, as we see today, this course of action is far riskier (read the fate of the manufacturing sector in developed countries). Entrepreneurs look at opportunities and new ideas as risk-benefit equation. They analyse the risk in the light of the potential benefits. But then, they don’t go to work on the new by just “knowing” the risk, they try to mitigate it, this way; they have a better chance at success. Hence, small or large companies, high tech start up or high tech multinationals, successful innovators are systematic in their approach to risk; they have a process to manage it.

Myth 5- Innovation and entrepreneurship are solely confined to “business”

Entrepreneurship is not limited to the economic sphere although the concept was originally thought out that way. It pertains to all human activities and in a lot of ways, the entrepreneur in the service institutions (education, hospital, economic development organizations, etc.) use the same tools and face the same problems as the entrepreneur in a business. We see examples of innovation in the education, health care and other social sectors everyday.

The pace of changes in society today demands that service institutions adapt to this reality or they will not survive. Like anything, it can take time, but when one’s mission is not in check with the realities of his time; one loses its legitimacy and eventually its budget. So non profit service institutions like economic development organizations and the likes need to appreciate the importance for them to innovate (especially when you want your companies in your region to do so...). For sure, there are obstacles to innovation in this type of organization and just to name a few: work with a budget not with results per se; dependency on a multitude of constituencies to satisfy; the need to do “good”; difficulties in abandoning activities and programs that no longer work, etc. But it’s no excuse not to innovate, this is part of the equation and it needs to be addressed like any entrepreneur would should he decide to venture in a new market, sell a new products or abandon his best selling one.

So the need to innovate in service institutions like EDOs is clear. Like businesses, they need to build entrepreneurship and innovation into their own system. Otherwise, they will find themselves irrelevant once a competing entrepreneurial economic service institution renders traditional EDOs obsolete. Over the last 60 years, we saw the creation of most of the service institutions we see today. In the coming years, the change will have to be within those existing organizations.