



IMP³rove II

**Innovation Management in High-Growth
SMEs from the Knowledge-intensive Ser-
vices (KIS):**

Setting the Pace for Growth in Europe

2010

Table of Content

1.	Management Summary	2
2.	The KIS Sector as Europe's Engine for Growth and New Jobs	4
3.	Innovation Driving Profitable Growth at KIS	10
3.1	Investing in Service Innovation for Financial Impact	10
3.2	KIS Growth Champions as Benchmarks in Innovation	11
4.	Success Factors for Innovation Management in KIS	14
4.1	Changing the Rules of the Game - Winning with Breakthrough and Fast Innovations	14
4.2	Creating Impact with Co-development Partnerships	15
4.3	Success from Discipline and Impact-driven Project Management	17
4.4	Superior Competitiveness from Cultural Openness	18
5.	Unexploited Opportunities for Profitable Growth in KIS	20
5.1	Internationalization	20
5.2	Professional Innovation Management Practices and Processes	20
5.3	Competing with the KIS Growth Champions	23
6.	Contribution of IMP ³ rove to Develop Future KIS Growth Champions	25
6.1	Moving KIS Companies from Innocence to Championship in Innovation Management	25
6.2	IMP ³ rove to Fuel the Growth Engine in the KIS Sector	27
7.	Policy recommendations for Driving Profitable Growth	30
7.1	A Future for Europe	30
7.2	Innovative Approaches to Recover from the Crises	31
7.3	IMP ³ rove – a European Ready-to-Use Standard to Master the Crisis	32
8.	Appendix: IMP ³ rove – the Powerful Source for Thought-Leadership in Innovation Management	33
8.1	IMP ³ rove – the Holistic Approach to Better Innovation Management Results in Europe	33
8.2	The IMP ³ rove Benchmarking Database	35
9.	List of Abbreviations	38
10.	Contacts for Further Information	38

1. Management Summary

In a setting of a global economic crisis the search for opportunities to move out of the downturn as quickly as possible is essential. The most promising opportunities are of course those that have a strong lever either because they address as many companies as possible or as many employees as possible, or because they promise a growth potential that will have a positive impact on other areas in the European economies.

In search of these opportunities this study wants to contribute insights on the growth opportunities coming from innovative, high-growth companies in the Knowledge-intensive Service sector (KIS). This sector has demonstrated its potential as growth engine for Europe in the past. It provides for about 70% of the GDP in Europe and offers jobs to 70% of the employees in Europe¹. Innovation is perceived as a powerful driver for sustainable growth. In the KIS sector innovation requires specific management capabilities compared to the manufacturing industries. These Innovation Management capabilities are essential to tap into the growth potential of the KIS sector and drive Europe out of the downturn.

The results from our research based on the IMP³rove database² (www.improve-innovation.eu), prove that the KIS companies – especially the Growth Champions in this sector have the potential to setting the pace for growth in Europe. It is encouraging the KIS sectors serving as Europe's engine for growth and new jobs if they are dedicated towards innovation. Indeed, investing in innovation is a smart move. It drives firm performance and profitable growth.

Investing in service innovations pays off. But what are the secrets of successful Innovation Management in KIS? KIS companies should take the risk and invest in more breakthrough rather than just incremental innovations. If they move quickly and don't get stuck in long-term development projects, they can change the rules of the game. Leaders in the KIS sector nourish intensive co-development partnerships and systematically manage their innovation projects driven by clear targets for time, value and quality. Passion complements this discipline. Successful KIS companies foster an open culture with which they maintain their competitiveness on a sustainable basis.

However, our research also shows that even KIS companies leave opportunities unexploited. They have not yet tapped into internationalization as an innovation strategy. Here KIS companies can learn from the Growth Champions in other industry sectors, where export helped to compensate the downturn in the domestic markets. On average, KIS firms can even further improve their proficiency in Innovation Management. Discipline and even more systematic Innovation Management help to turn creative potential into financial value, especially in the fuzzy front-end. When searching for new ideas, KIS firms could even better listen to the "voice-of-the-customer".

If the KIS sector shall develop its full potential as the growth engine in Europe those companies that are lagging behind need to become aware of the benefits of a systematic Innovation Management and learn how to successfully implement it. Others that are further ahead need to be better educated

¹ European Competitive Report 2009, European Commission, Commission Staff Working Document SEC (2009)1657 final; see also Eurostat 2010.

² IMP³rove is the initiative of the European Commission, DG Enterprise and Industry for better support in Innovation Management for small and medium sized enterprises. IMP³rove has developed a benchmarking database on Innovation Management of SMEs from all across Europe and beyond.

in state-of-the-art Innovation Management and the most advanced still have room for improvement in the exploitation of Innovation Management as value driver on a sustainable basis.

In light of these insights, SMEs, Innovation Management support providers, intermediaries, financial actors as well as policy makers have the possibility to better focus their efforts in further developing effective Innovation Management capabilities for sustainable growth in Europe. With the IMP³rove Approach a European “ready-to-use” standard is at hand to master the crisis with innovation driven high growth companies as role models to bring many other SMEs up to the same growth path.

In the following chapters details will be presented on Innovation Management benchmarks, “good practices” and recommendations for driving profitable growth in Europe.

For current information on IMP³rove, the IMP³rove platform is accessible at www.improve-innovation.eu.

The European Coordination Team

July 2010

2. The KIS Sector as Europe's Engine for Growth and New Jobs

SMEs from Knowledge-intensive Services (KIS) are an important driver of Europe's competitiveness. They are Europe's engine for growth and wealth. KIS are a diverse and dynamic sector covering SMEs from different age and size classes. Small firms characterise the KIS sector in Europe. About 61 % of SMEs from KIS employ between 5 and 20 employees. SMEs in KIS are at different organizational lifecycle stages. Whilst some are relatively young and have been founded within the last 2 to 5 years, others have been established more than 25 years ago.

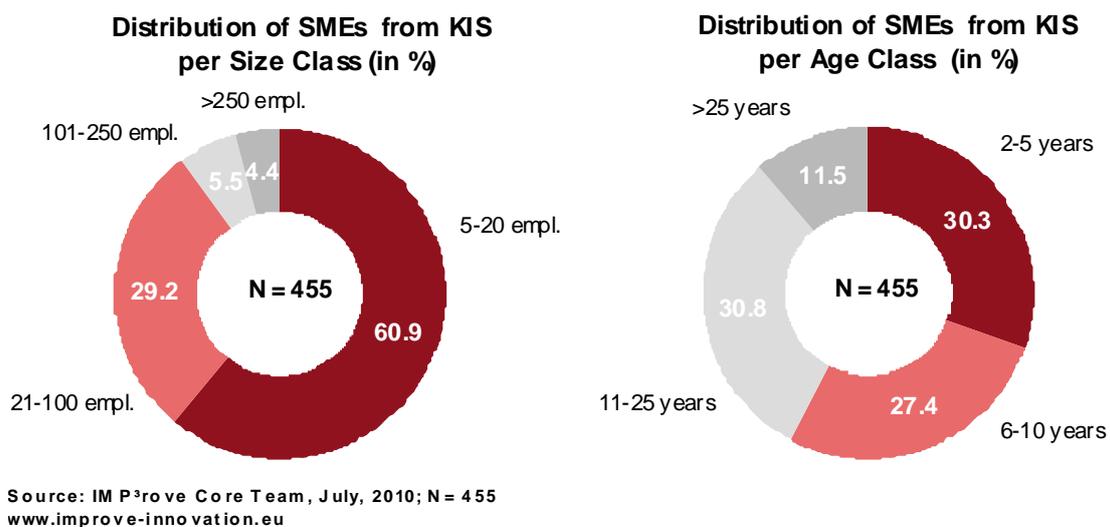
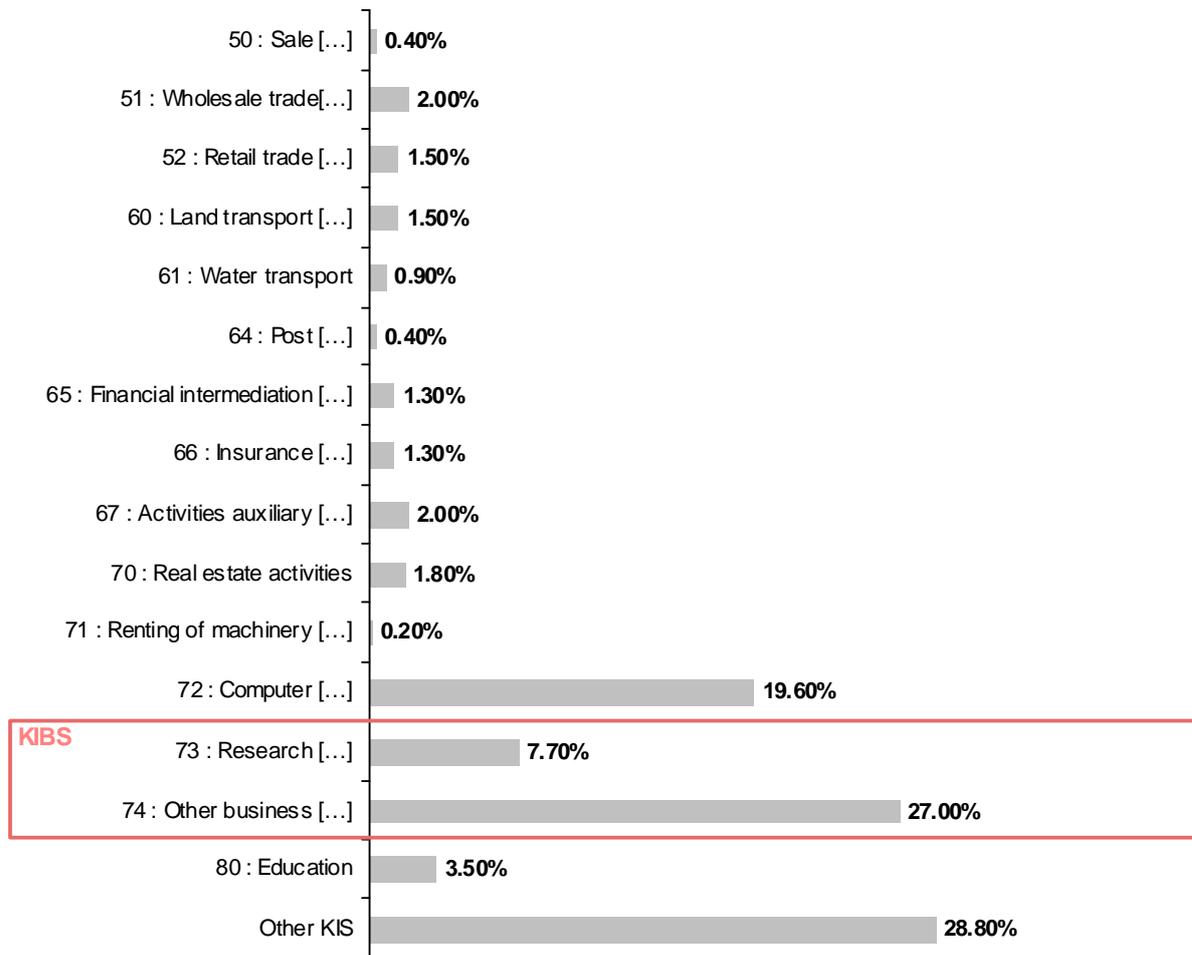


Figure 1: Distribution of SMEs from KIS per Size and Age Class

As shown in Figure 2, KIS are also a very heterogeneous sector including both traditional services such as sales or renting of machinery, and high-tech and knowledge-intensive business services (KIBS). KIBS, including R&D (NACE Code 73) and other business activities (NACE Code 74), are an important source for job creation in Europe. They make up more than 30 % of the firms in the IMP³rove database. IMP³rove confirms that the KIS sector is evolving and developing. New sub-categories are emerging and, thus, some KIS firms cannot be classified based on the traditional NACE code system (NACE code Rev 1³). In IMP³rove 28.80% of SMEs are such "Other KIS" firms.

³ The statistical classification of economic activities in the European Community is available at Eurostat's metadata server RAMON at <http://ec.europa.eu/eurostat/ramon>

Distribution of KIS across Different NACE Codes (in %)



KIBS = Knowledge Intensive Business Services
 Source: IMP³rove Core Team; July, 2010; N=455, www.improve-innovation.eu

Figure 2: Distribution of SMEs from KIS across Different NACE Codes (share in %); Based on NACE code Rev 1.1.

Despite this heterogeneity, SMEs from KIS have one thing in common: They drive Europe’s growth and create new jobs. As Figure 3 shows, KIS firms represent Europe’s “job creation engine”. SMEs from KIS achieve an average rate of employment growth⁴ of nearly 13 % (median values). In the IMP³rove database, they achieve the highest average employment growth rate of all industry groups. Indeed, KIS outperforms ICT/Electrical/Optical by more than 4 %. It emphasizes the relevance of human-capital in services and stresses the economic importance of KIS for Europe’s wealth.

⁴ Based on a linear approximation of income growth over the last four years

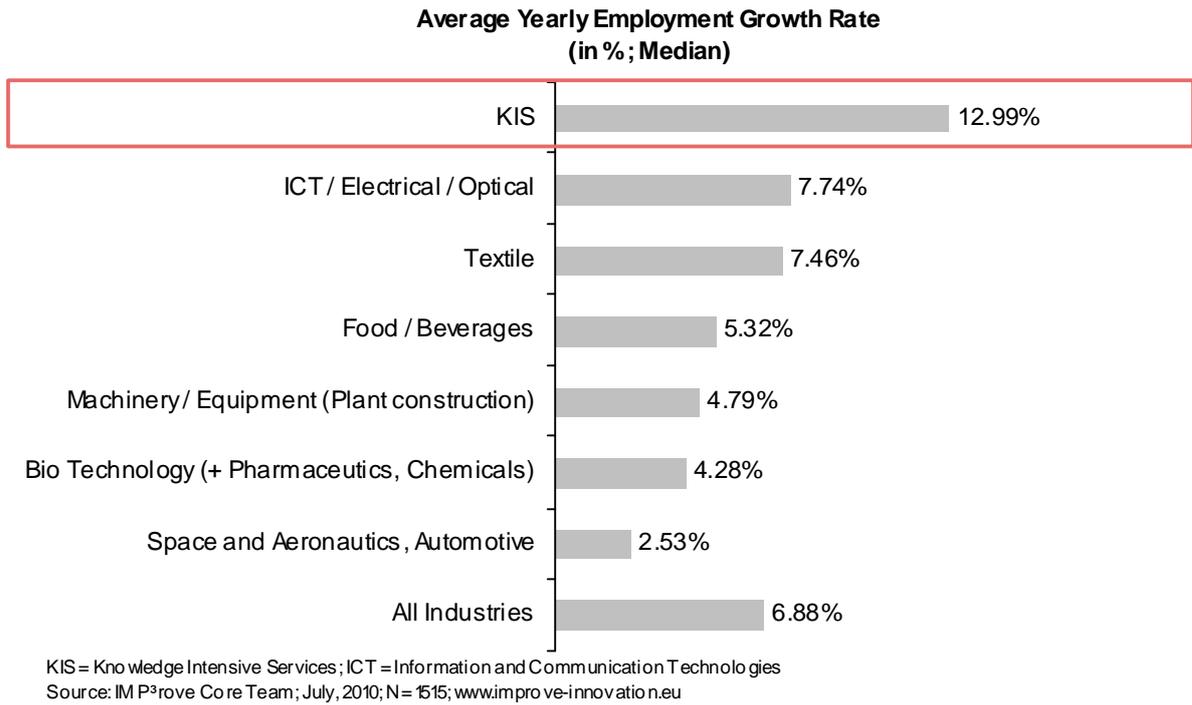
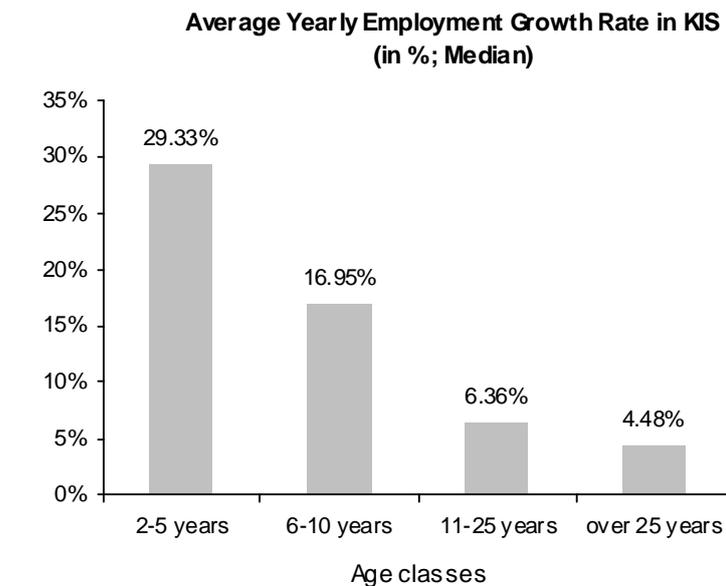


Figure 3: Average Yearly Employment Growth Rate per Industry Group (Median)

KIS firms that are younger than 10 years are driving this employment growth the most. When comparing the employment growth rate across different age classes, young KIS firms show the highest dynamic (see Figure 4). However, more mature KIS firms, that have been founded more than 10 years ago, also show an employment growth rate at the level of the industry average (6.36%; median value).



Source: IMP³rove Core Team; July, 2010; N= 452; www.improve-innovation.eu

Figure 4: Average Yearly Employment Rate in KIS per Age Class (Median)

KIS SMEs not only grow in terms of employees. They also outperform other industries in terms of income growth. They are a real driver of Europe’s wealth in an economic sense. KIS companies achieve an average rate of income growth of 15.59 %⁵ (median values). As shown in Figure 5, they have a clear lead over other industry groups. KIS firms outperform the high-tech firms from ICT/Electrical/Optical that are on second position by more than 4 %.

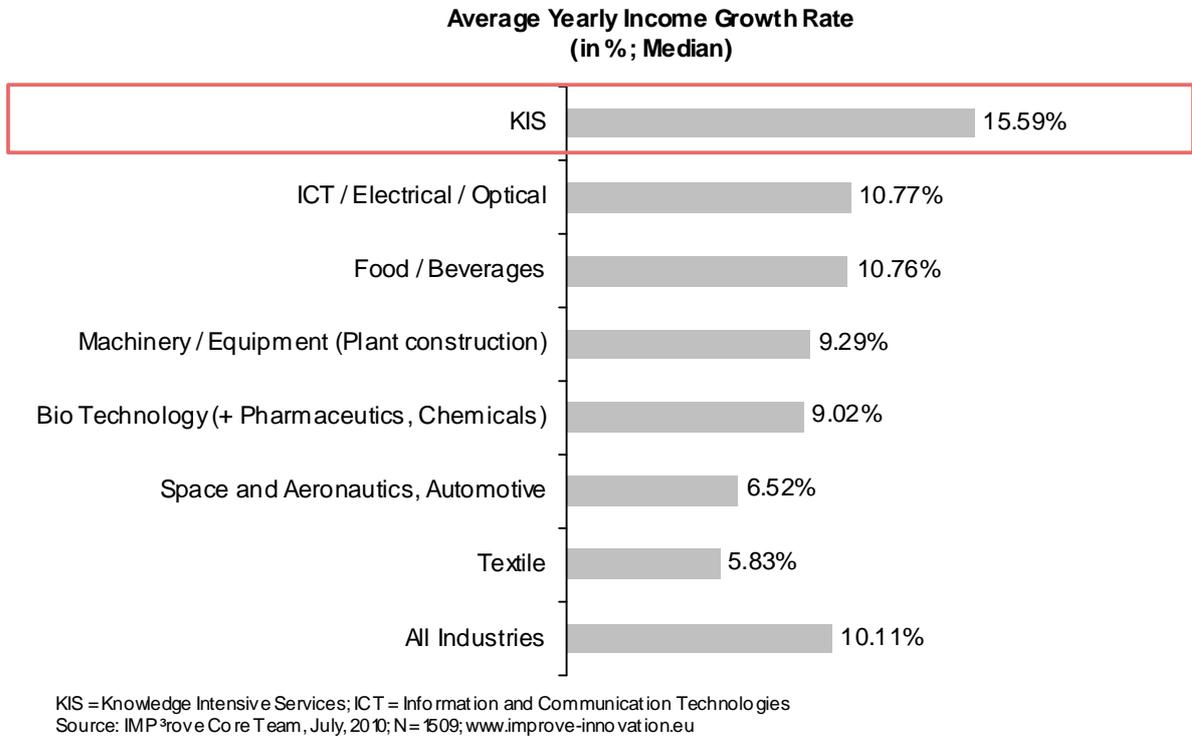
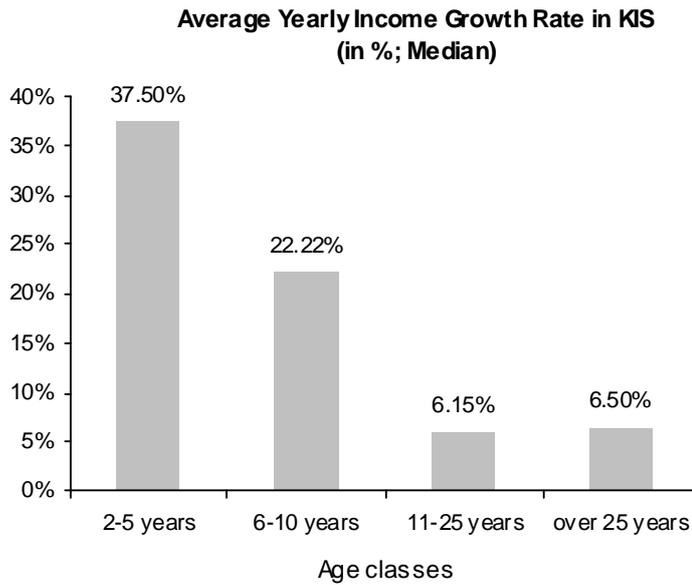


Figure 5: Average Yearly Income Growth Rate per Industry Group (Median)

As one may have expected, young KIS SMEs achieve a significantly higher income growth rate than older KIS SMEs. As shown in Figure 6, SMEs in the KIS sector that are younger than 10 years outperform other age classes by a clear growth gap of more than 15 %. Those young and dynamic firms define Europe’s growth in the future.

⁵ Based on a linear approximation of income growth over the last four years



Source: IMP³rove Core Team, July, 2010; N=449; www.improve-innovation.eu

Figure 6: Average Yearly Income Growth Rate in KIS per Age Class (Median)

KIS is one of the two high performing industry groups in terms of profit growth. IMP³rove shows that KIS firms achieve an average growth in operating margin of 1.02 % (median value; see Figure 7). This puts them in second place after the Food/Beverage sector performing an average operating margin growth of 1.03 %. The gap to those industry groups that show a lower profit growth rate is much larger. KIS firms outperform ICT/Electrical/Optical by 0.26 %. It confirms the value-adding character of KIS and its contribution to economic wealth.

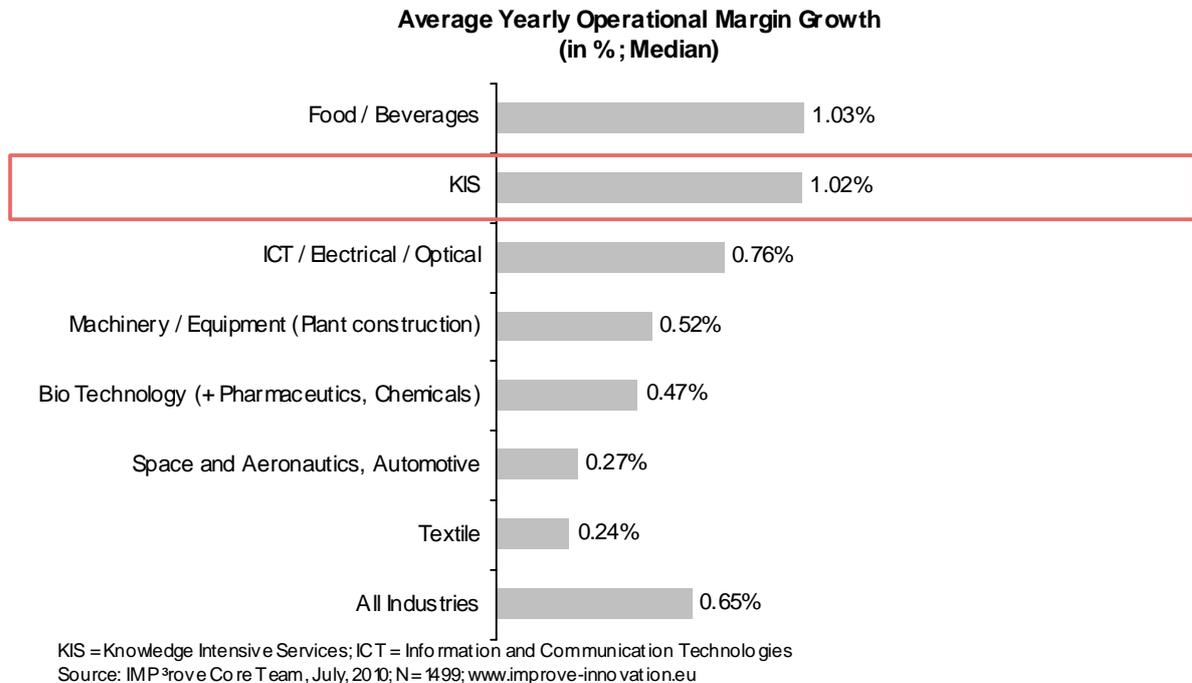
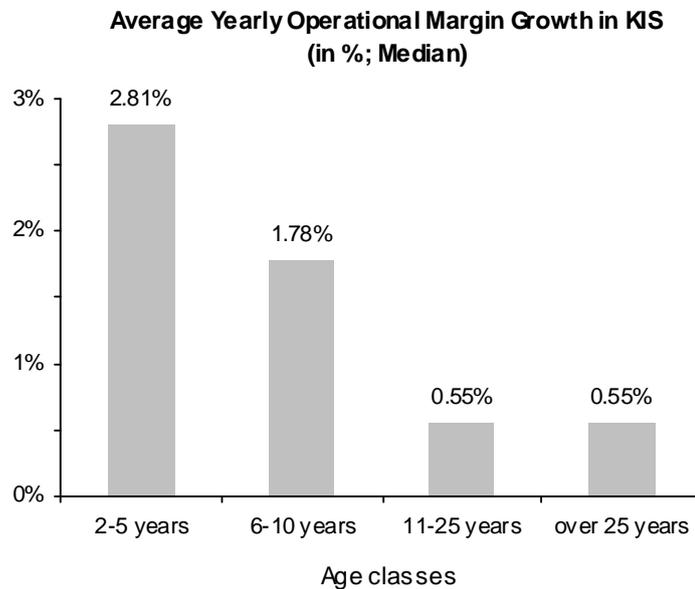


Figure 7: Average Yearly Operational Margin Growth per Industry Group (Median)

KIS firms that are younger than 10 years influence the top performance of KIS in terms of profit growth. As shown in Figure 8, these young SMEs have been significantly increasing their operating margins over the last years. They are real value-adding “pearls” that are an important benchmark for innovation policy-making.



Source: IMP³rove Core Team, July, 2010; N=445; www.improve-innovation.eu

Figure 8: Average Yearly Operational Margin Growth in KIS per Age Class (Median)

For the SME managers, and for Innovation Management consultants supporting those young highly profitable KIS companies, the challenge will be to maintain that high growth rate, once the company grows older and needs to maintain their innovation pipeline.

3. Innovation Driving Profitable Growth at KIS

Innovation in service sectors has long been considered as rather low⁶. However, IMP³rove reveals that in KIS investing in innovation is a very smart move. It drives performance and profitable growth.

3.1 Investing in Service Innovation for Financial Impact

KIS firms significantly invest in innovations. IMP³rove shows that on average KIS firms have spent a share of 4 % of their total income for innovation activities per year (median). Only ICT/Electrical/Optical show a higher share of expenditure for innovation. However, KIS firms not only spend a high income share to develop new services. They also earn a significant income from new services (that are younger than 3 years). On average, KIS firms achieve an income from innovation of about 20 % of their total income (median). Our results indicate that KIS firms show a high dedication towards service innovations. They also reap the financial rewards from their expenditures. In KIS, investing in the development of new services pays off, and it pays well in comparison to other industry groups.

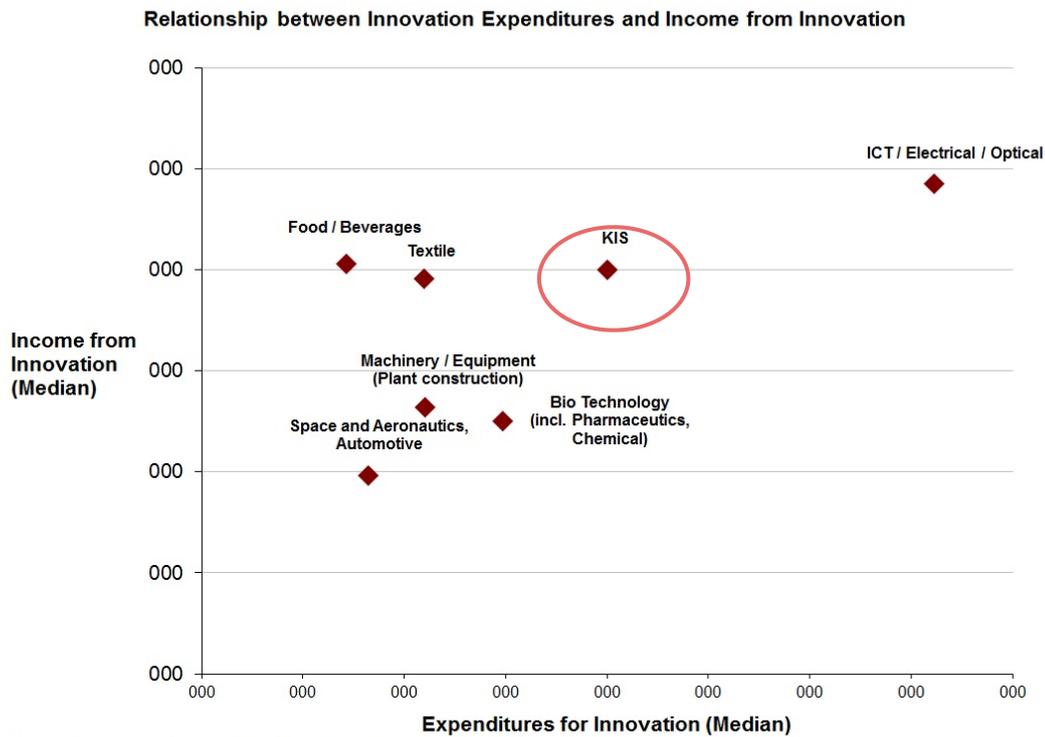


Figure 9: Relationship Between Innovation Expenditures and Income from Innovation (Median)

⁶ EU Commission (2008): Innovative Business Models with Environmental Benefits, Draft final report, COWI, Kongens Lyngby, July 2008

A correlation analysis confirms that a high expenditure in innovation is linked to a high income from new services. In KIS the correlation is stronger than in all other industries (Pearson Correlation Coefficient of 0.43 in KIS sectors). For example, in Biotechnology (+Pharmaceuticals, Chemicals) the correlation is very low (Pearson Correlation Coefficient of 0.08). In other industry groups, the correlation is also lower than in the KIS sector. These results should motivate KIS firms to invest in the development in new services that can easily be turned into financial value in terms new income.

3.2 KIS Growth Champions as Benchmarks in Innovation

A closer look confirms that investing in innovation shapes a firm's performance. KIS Growth Champions set the benchmark. They are dedicated towards innovation. The Growth Champions in KIS are the top 10% of all SMEs in the KIS sector in terms of profitable growth. They show the highest growth in three dimensions – average yearly income growth rate, employment growth rate, and average yearly operational margin growth – and they grow organically. They outperform their peers in terms of profitable growth by far.

As shown in Figure 10, Growth Champions significantly invest in innovation and see innovation as a crucial source of competitive advantage. Across all industry groups and firms age 7 years and older, Growth Champions show a higher share of expenditures for innovation than their peers. In KIS, Growth Champions invest about 8.05 % of their yearly income (median values). Only in Bio Technology (+Pharmaceuticals, Chemicals) Growth Champions show a higher dedication. They spend about 10% of their yearly income on innovation. In KIS, Growth Champions expend about 5 % more of their yearly income for innovation than their peers. This confirms the relevance of innovation for sustainable and profitable growth.

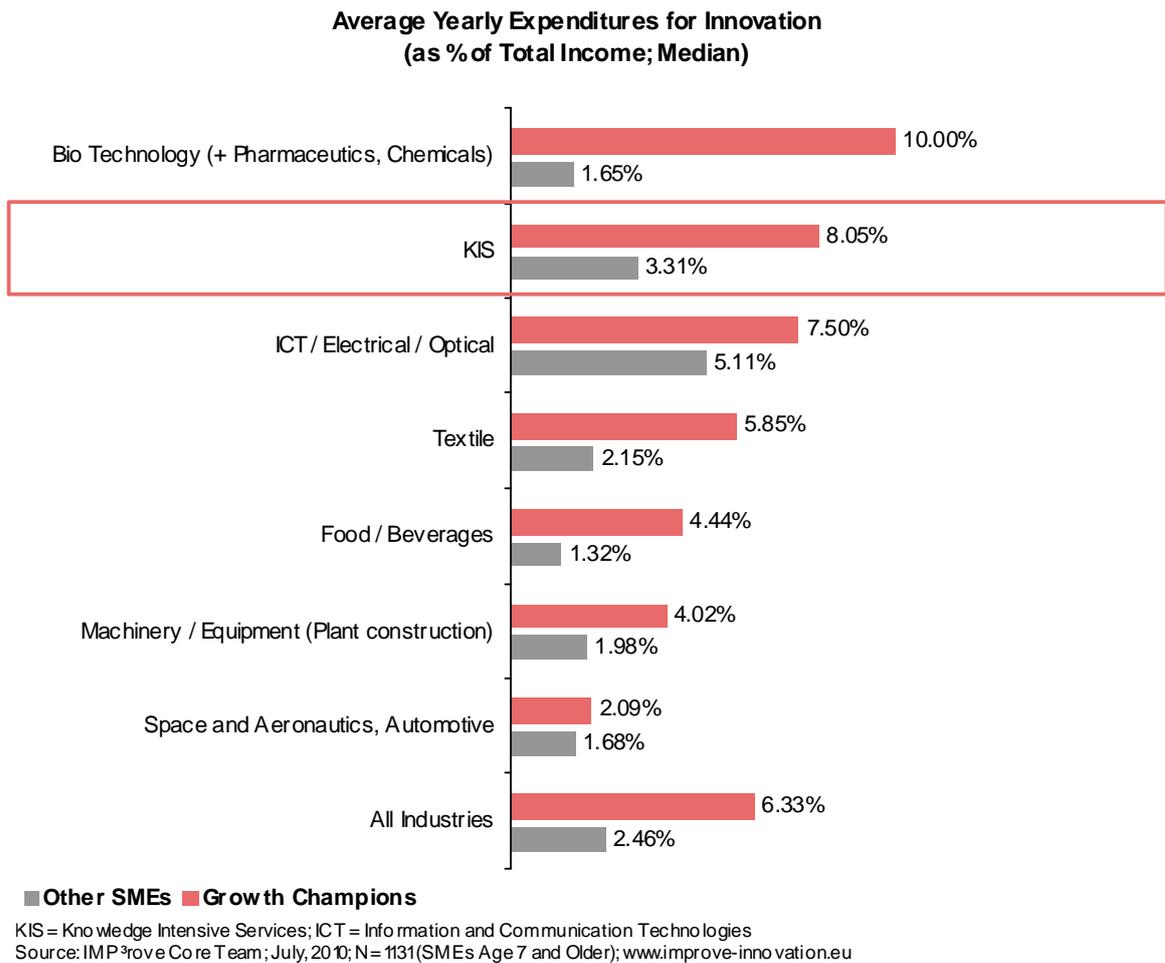


Figure 10: Expenditures for Innovation (as % of Total Income): Growth Champions versus Others (Age 7 and Older)

Our results show that KIS Growth Champions are aware of the need of a continuous flow of new ideas to fill the innovation project pipeline.

Growth Champions also reap the rewards of innovation, even among firms that are older than 7 years. There is a payoff, even if SMEs firms are more mature and less dynamic by nature. They earn a significant income from new services⁷. Across all industry groups and SMEs of age 7 years and older, Growth Champions earn a higher share of income from new services (see Figure 11). They do not just invest in different kinds of innovation they also successfully manage to channel innovation projects through the pipeline to create new service offerings, even if KIS firms have already matured. These new services create additional income streams and drive future growth. On average, Growth Champions from KIS sectors earn about 17 % of their income from new services. In contrast, their peers only earn a share of 13.75 % (median values; see Figure 11).

⁷ The novelty level is defined from a firm perspective and not from a market perspective; “new to the firm” and not “new to the market”

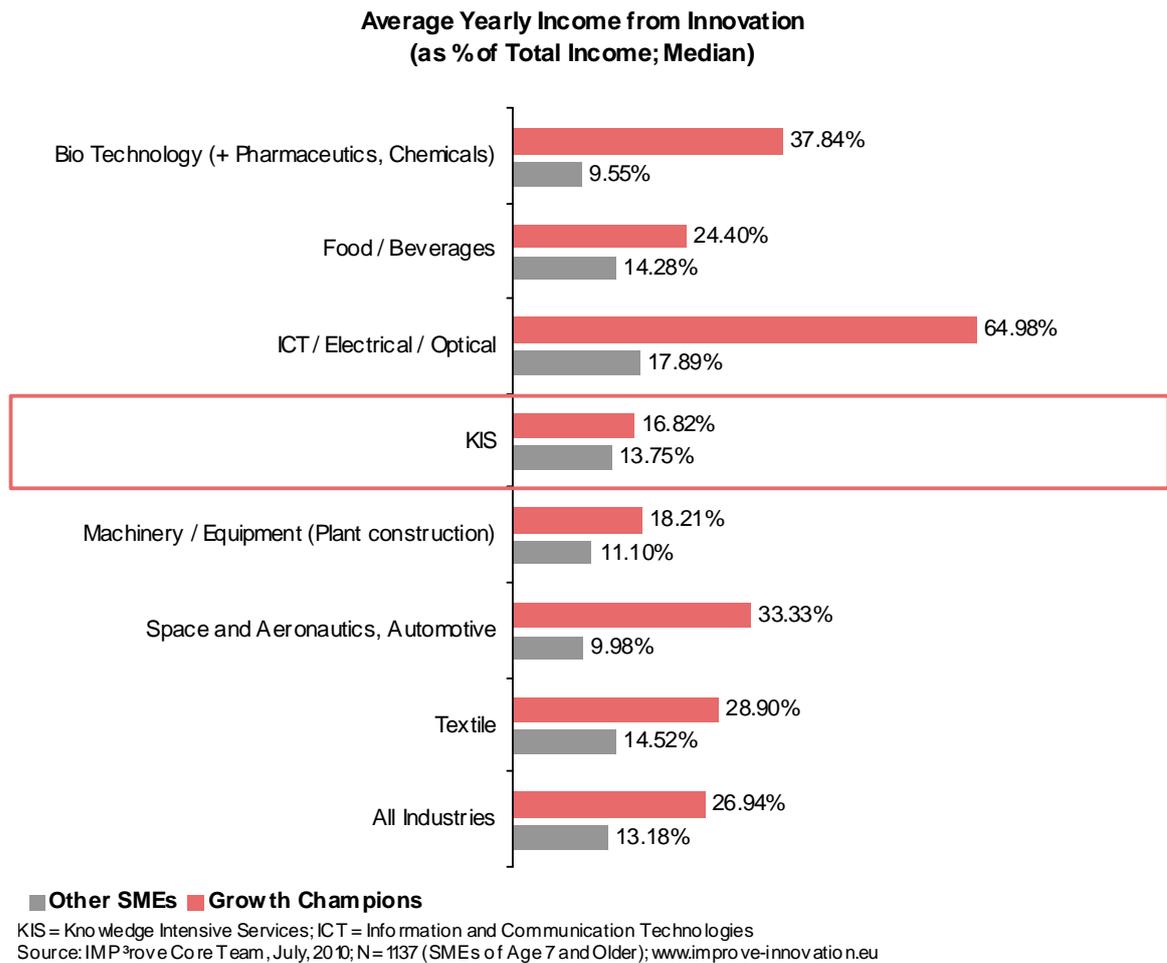


Figure 11: Income from Innovation (as % of Total Income; Median); Growth Champions versus other SMEs (Age 7 and older)

4. Success Factors for Innovation Management in KIS

What are the secrets of leading firms in KIS? IMP³rove points out what is required to leverage Innovation Management for financial impact and profitable growth in KIS: A bold innovation strategy, speed and discipline combined with an open culture and value-adding co-development partnerships determine the success of leaders in KIS.

4.1 Changing the Rules of the Game - Winning with Breakthrough and Fast Innovations

Innovation in services is often considered as rather incremental and reactive. However, the IMP³rove database reveals that KIS firms should be “bold” and should try to change the rules of the game. As shown in Figure 12, Growth Champions among KIS firms of all age classes earn a higher share from breakthrough innovations (20.91 %) than from incremental innovations (7.69%). This contrasts the innovation profile of their peers: The “laggards” purely concentrate on incremental innovations and do not dare to engage in more risky innovations. Results confirm that even in services “changing the rules of the game” is a winning strategy that drives profitable growth.

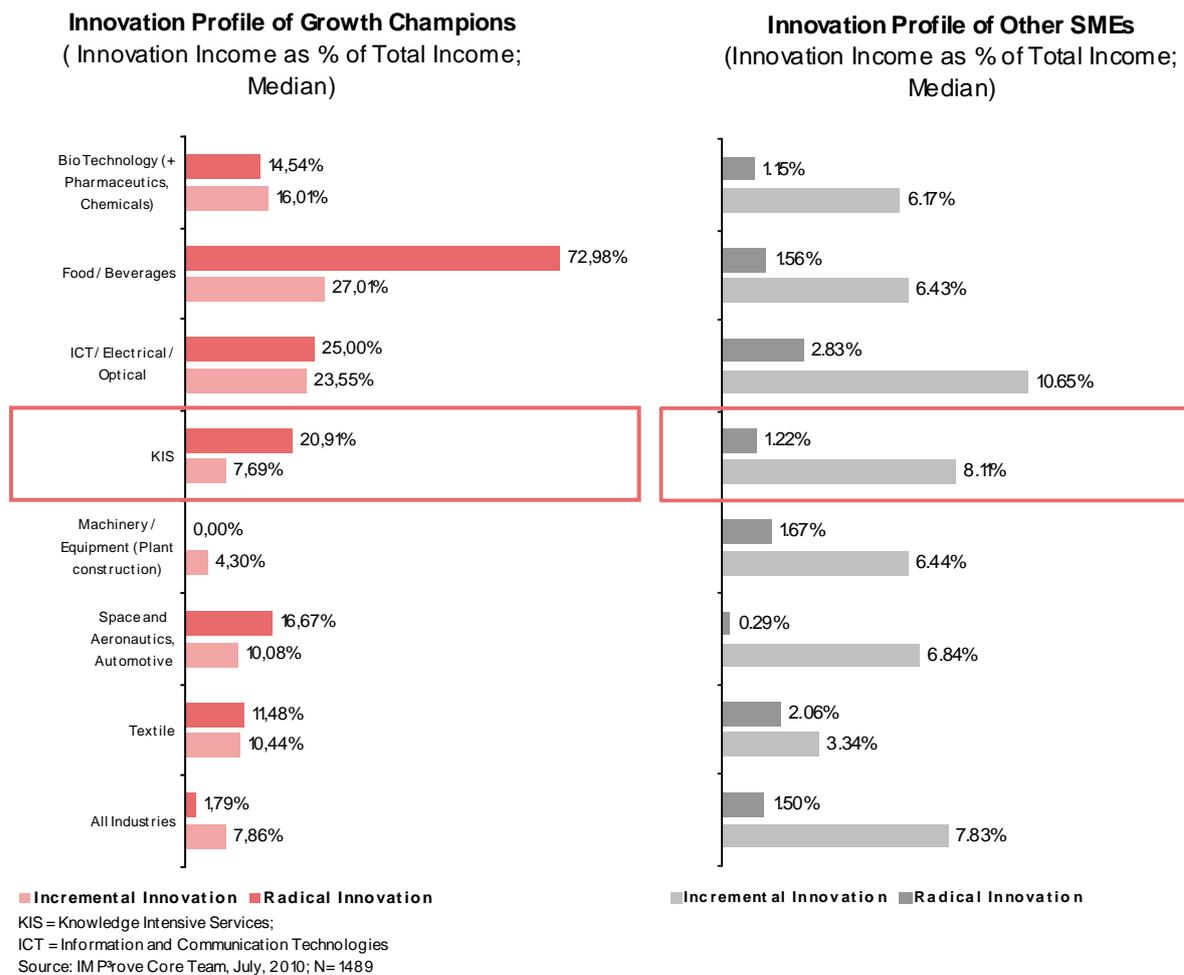


Figure 12: Innovation Profile of Growth Champions and Other SMEs (Income from Innovation as % of Total Income)

Generating breakthrough innovations is not enough. To succeed, KIS firms need to move quickly. Short time-to-market drives profitable growth. KIS Growth Champions do hardly engage in long-term innovation projects. They bet on innovations that offer a high added-value to the market and develop them at a high speed. As shown in Figure 13, KIS Growth Champions set aside a smaller budget for long-term innovation projects than their peers (0.00 % in comparison to 7.00 %; median values). Speed and focus on “value-creation” helps champions to reap the rewards.

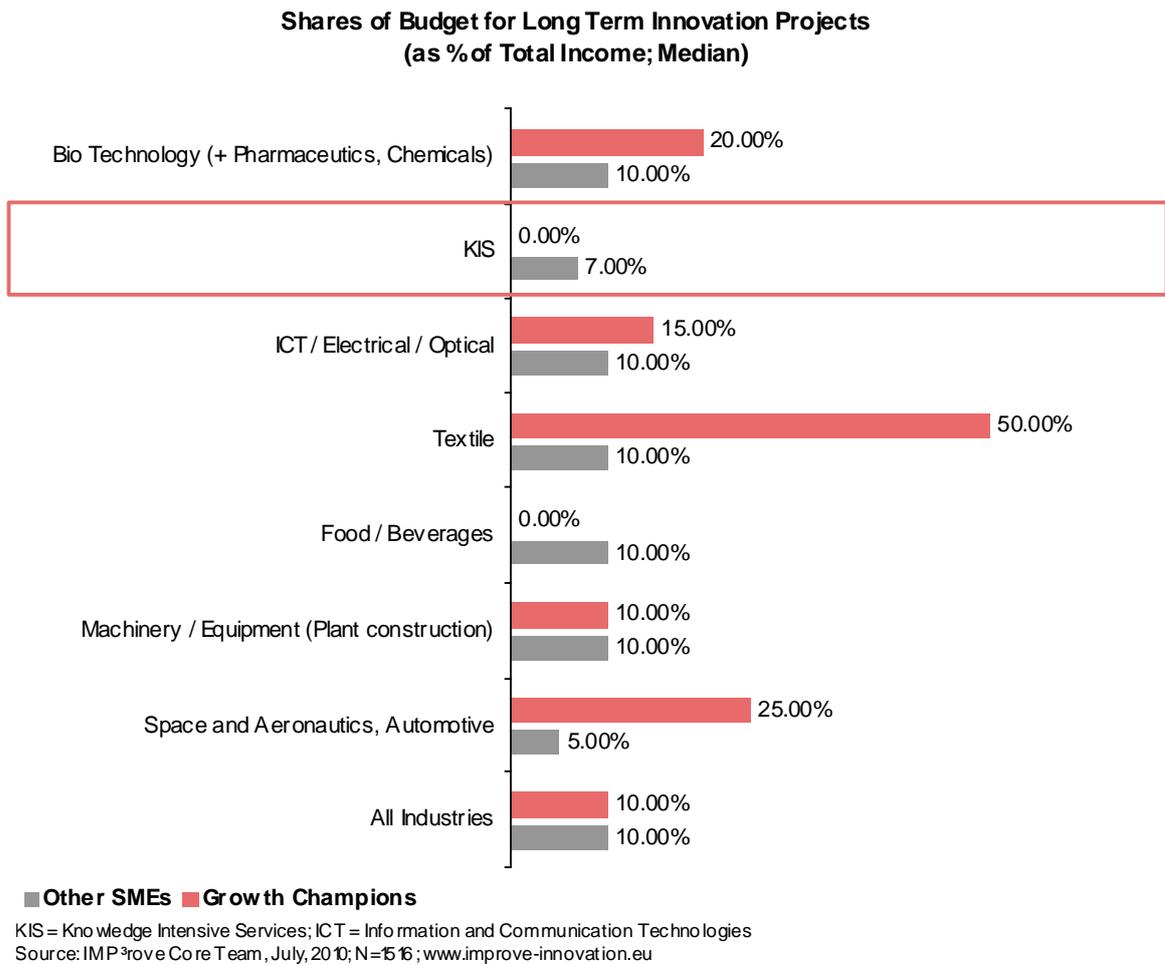


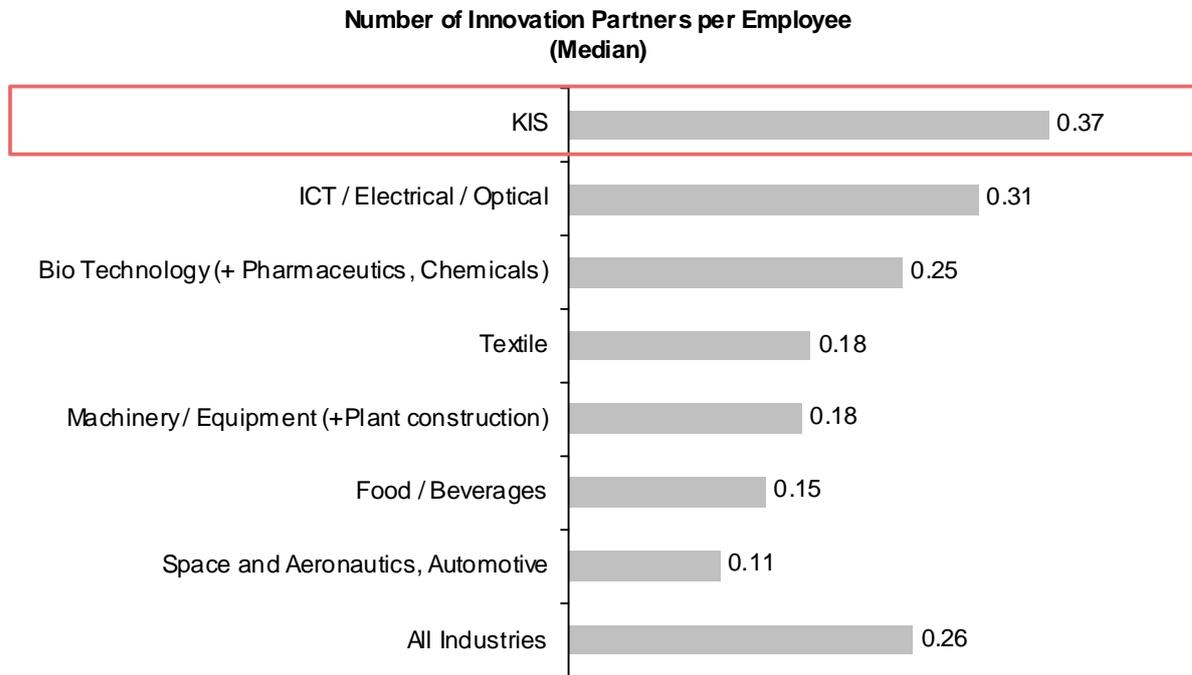
Figure 13: Share of Budget for Long-term Innovation Projects (as % of Total Innovation Expenditures; Median)

4.2 Creating Impact with Co-development Partnerships

Service delivery usually requires intensive interaction with customers and partners and includes activities that span organizational boundaries. Indeed, organization networks and partnerships play an important role in services delivery - and for innovation. Value-adding co-development partnerships are a secret of successful innovators in KIS.

Results from the IMP³rove database confirm that KIS SMEs heavily rely on co-development partnerships. On average, KIS firms have collaborated with 0.37 partners per employee in co-development innovation projects over the last 3 years (median values). Other high-tech sectors such as

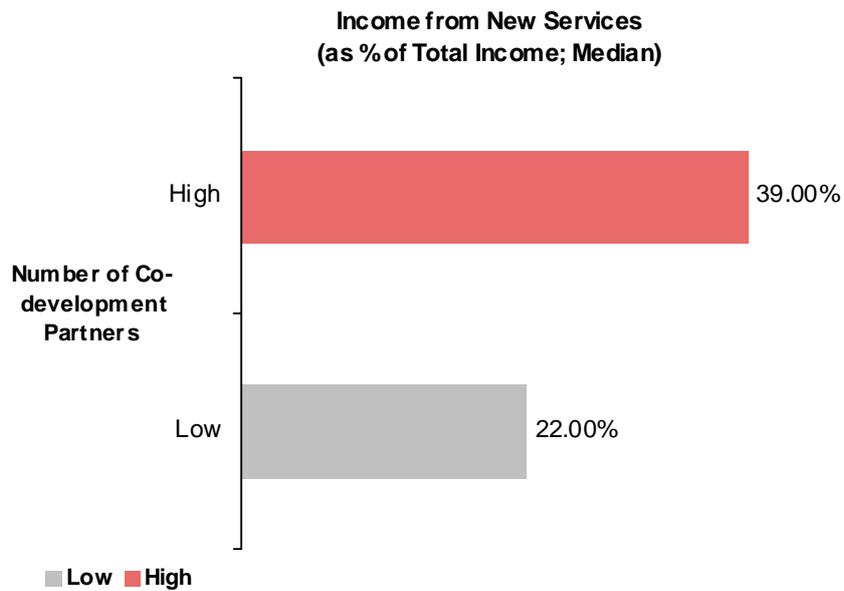
ICT/Electrical/Optical leverage only 0.31 partners per employee. As shown in Figure 14, KIS firms show the highest intensity in terms of innovation collaboration.



KIS = Knowledge Intensive Services; ICT = Information and Communication Technologies
Source: IMP³rove Core Team, July, 2010; N= 1495; www.improve-innovation.eu

Figure 14: Number of Co-development Partnerships per Employee per Industry Group

Such co-development partnerships pay off. Firms that have explored the value of a large network of co-development partnerships outperform others. As shown in Figure 15, firms with a high intensity in innovation partnerships significantly outperform their peers that try to develop and commercialise new services with the support of fewer partners. They achieve an income from new services of 39 % of their total income. KIS firms that rely on fewer partners earn only 22 % of their income from new services. Co-development partners offer complementary resources and marketing channels to successfully introduce a new service to the market. To succeed in innovation KIS firms need to join forces and leverage network effects.



Source: IMP³rove Core Team, July, 2010; N= 1456; www.improve-innovation.eu

Figure 15: Income from Innovation in KIS (as % of Total Income): KIS Firms with a High versus a Low Number of Co-development Partners

4.3 Success from Discipline and Impact-driven Project Management

To move effectively and efficiently from the idea generation to the commercialisation of a new service, KIS firms need to have discipline. A structured and systematic approach towards managing innovation is a key driver of profitable growth. IMP³rove Growth Champions in KIS have more transparency on their innovation performance and are more disciplined than their peers. They define targets and measures to assess the impact of ongoing innovation activities on their firm performance and also to enforce these targets. As Figure 16 points out, firms with a higher discipline in innovation project and performance measurement show a higher income from new services than those that are more in the “blind flight”. Disciplined firms achieve a share of income of about 28 % (median values) in comparison to others that have only little insight on their performance of their ongoing innovation projects.

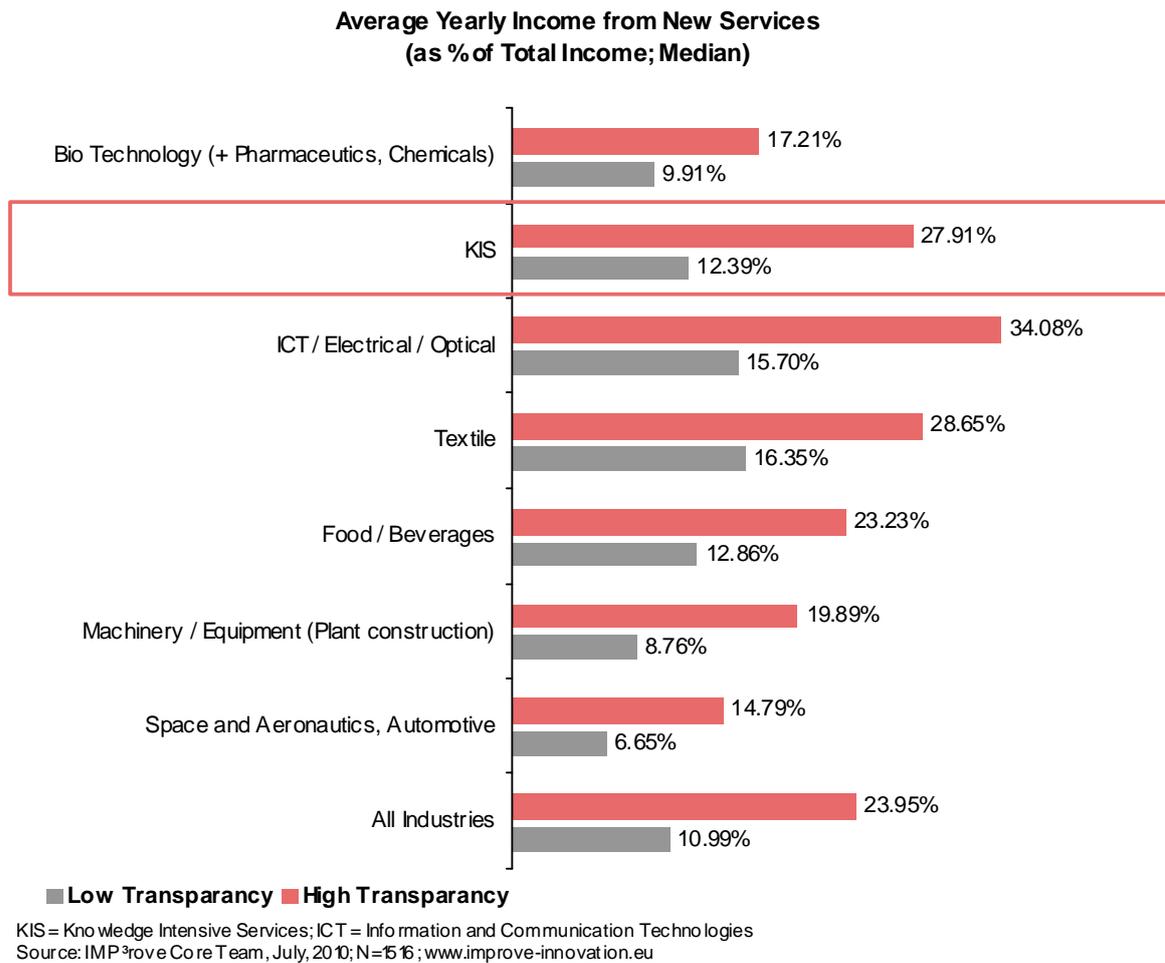


Figure 16: Income from Innovation in KIS (as % of Total Income): Low Transparency and High Transparency in Innovation Project Management

4.4 Superior Competitiveness from Cultural Openness

A risk-averse culture is often cited as one of the biggest obstacles to maximizing the returns from innovation. In KIS an open and entrepreneurial innovation is a particularly strong suit for high innovation performance. A culture that fosters innovation and supports the collaboration with external partners helps firms to win and achieve high competitiveness. In KIS, SMEs with an open culture that drives innovation show a significantly higher income from new services than those SMEs that are rather “closed” and risk averse. KIS firms that foster an innovation culture achieve a yearly income from new services of 26.33 % (as share of their total income). Risk-averse firms achieve only 5.35 % of their income from new services. Those KIS firms that have an open culture and are able to tolerate ambiguity outperform others. Both passion and discipline are important.

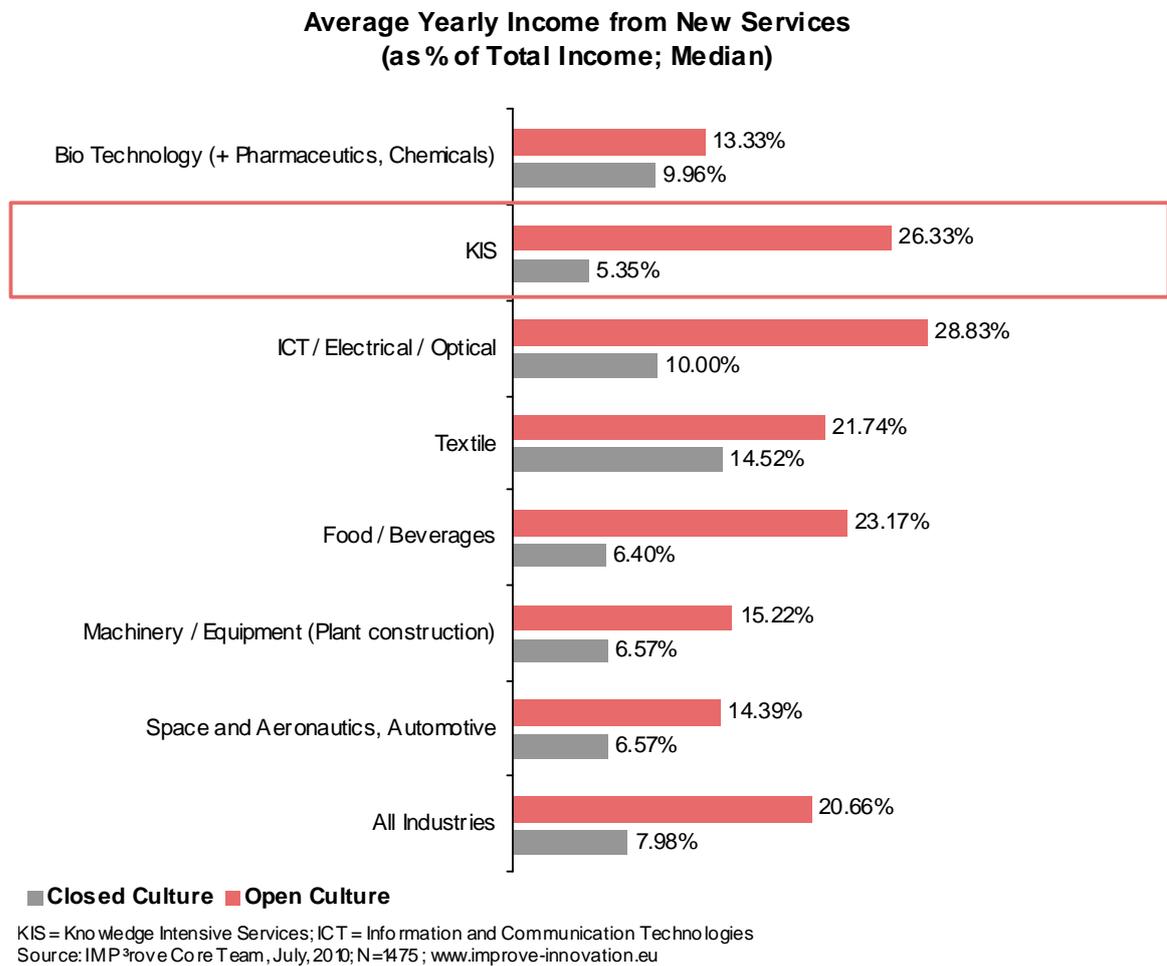


Figure 17: Income from Innovation in KIS (as% of Total Income): Closed versus Open Culture

5. Unexploited Opportunities for Profitable Growth in KIS

The KIS is a dynamic sector with a high potential for profitable growth and creation of new jobs. However, there are still unexploited opportunities in KIS.

5.1 Internationalization

In today's globalized world, SMEs from different types of industry groups are forced to enter new markets that are beyond their regional or national scope. However, KIS firms do hardly tap into international markets. Results reveal that KIS SMEs are not ready to take a more global perspective (see Figure 18). This offers an opportunity for future growth. SMEs from other industries such as Machinery/Equipment (+Plant construction) have long identified this opportunity. KIS SMEs can learn from these industries and identify new sources of future growth.

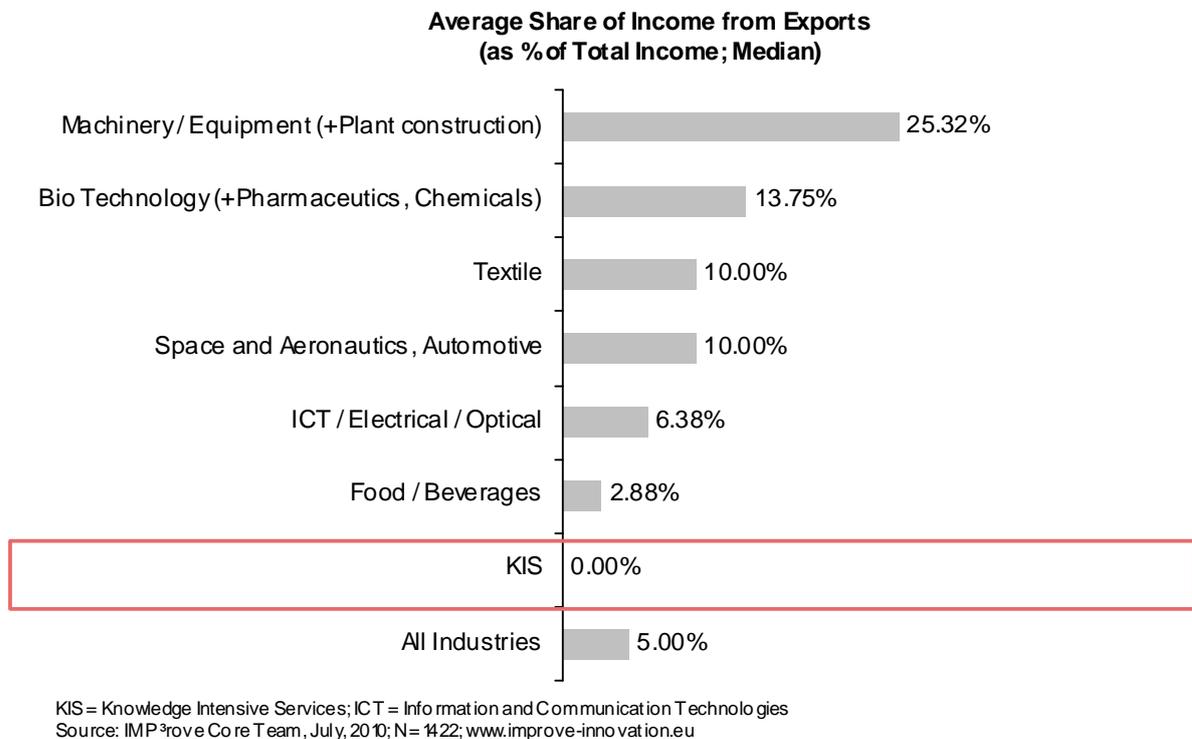


Figure 18: Degree of Internationalisation per Industry Group

5.2 Professional Innovation Management Practices and Processes

Discipline and professional management practices determine the success of innovation in KIS. Our research has pointed out that the high performers among the KIS companies have understood that discipline and professional Innovation Management is important. However, many KIS firms that are not among the leaders in the KIS sector, lack a professional approach for managing innovation throughout the entire innovation value chain. There is tremendous room for improvements, especially in the fuzzy front-end.

Only 60 % of KIS SMEs systematically collect and assess new ideas to be turned into innovation projects. KIS companies lack discipline in the early phases. Even if they have the passion, they do not have the discipline to collect and assess new ideas. Figure 19 shows that on average, KIS SMEs are less professional in managing ideas than other industry groups. Only Textile is scoring lower than KIS. A lot of innovation potential is not exploited. KIS firms can learn from other sectors that show a higher professionalism in managing innovation. For example, in engineering driven sectors formal management techniques are widely accepted.

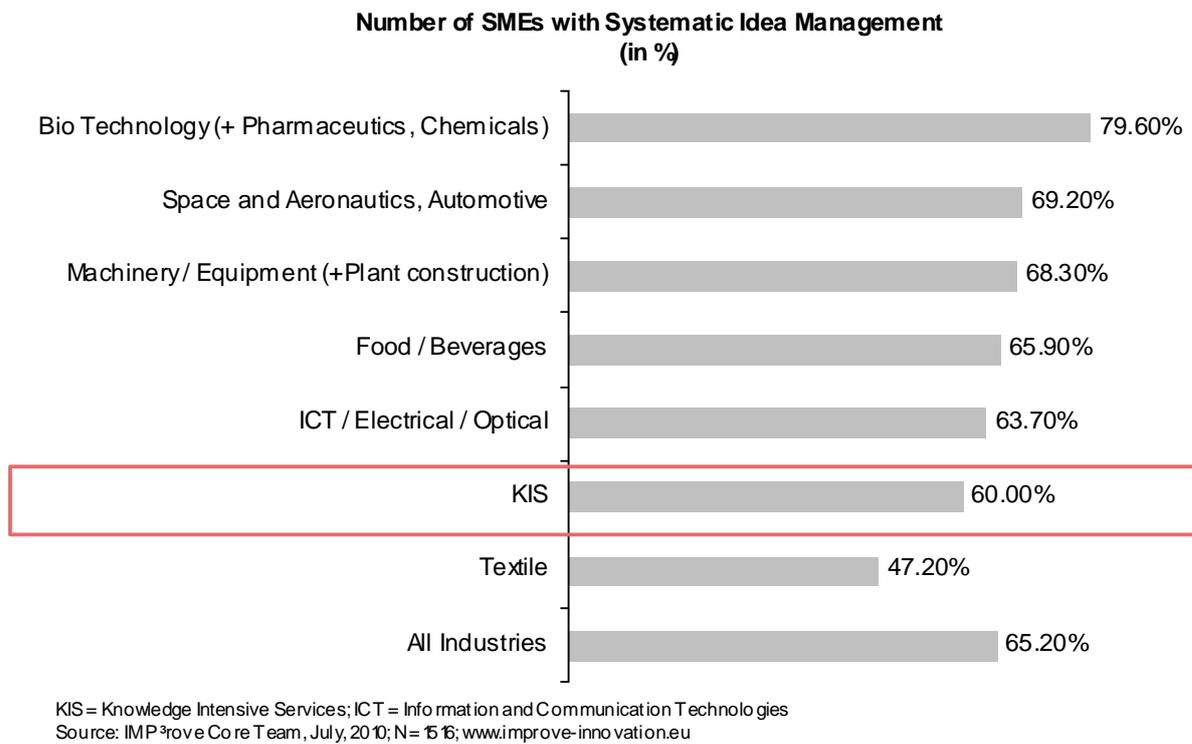


Figure 19: Number of SMEs with Systematic Idea Management (% per Industry Group)

As discussed above, KIS firms do heavily leverage co-development partnerships. Leaders among the KIS firms have understood that these partnerships drive performance when developing and launching innovations. However, KIS have not yet understood that external partners are an important source for new ideas and suggestions for improvements. As shown in Figure 20, SMEs from KIS involve a smaller number of external actors when searching for new ideas in comparison to other industry groups. There is large potential KIS firms should tap into to leverage innovation for profitable growth.

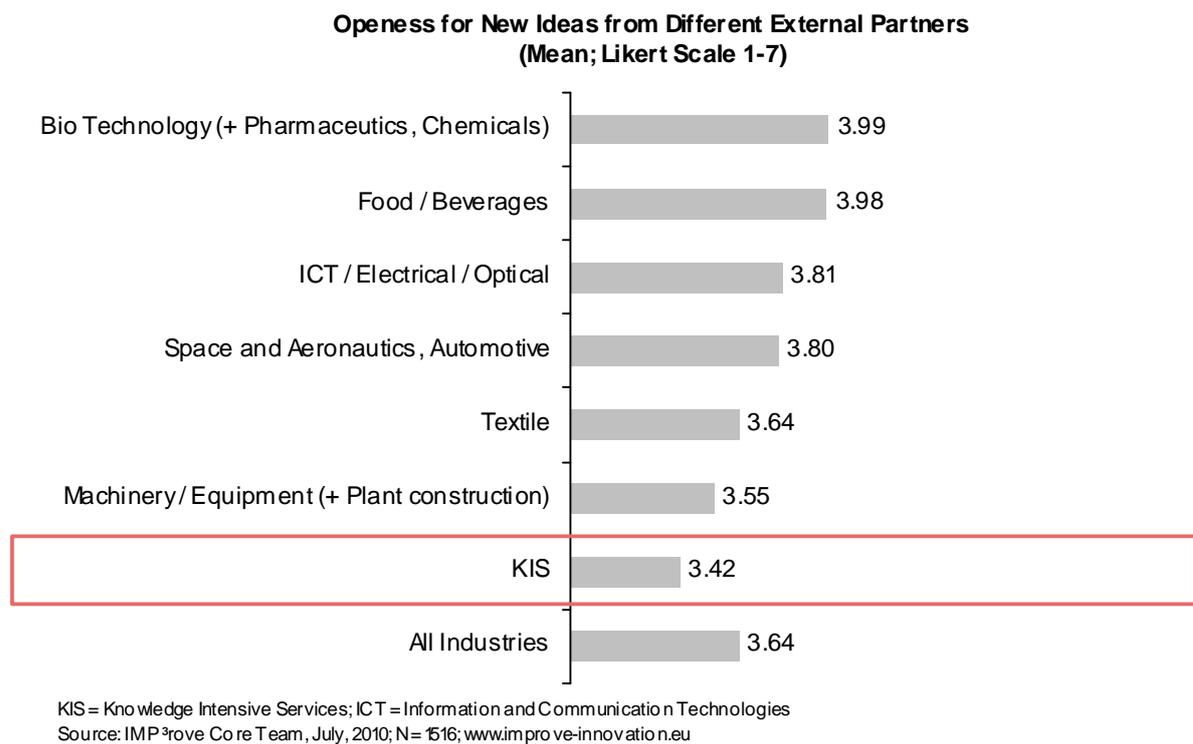


Figure 20: Openness for New Ideas from Different External Partners (Mean; Likert Scale 1-7)

Especially the “voice-of-the-customer” is important for service innovations as customization and customer-orientation is crucial in KIS. However, KIS SMEs do not exploit their customers as a source for new ideas and suggestions for improvements. As shown in Figure 21, KIS SMEs show the lowest interaction with customers when searching for new ideas and suggestions for improvements. Given the fact that a thorough understanding of the customer’s needs is crucial in service innovations, KIS SMEs need to better leverage this unexplored opportunity.

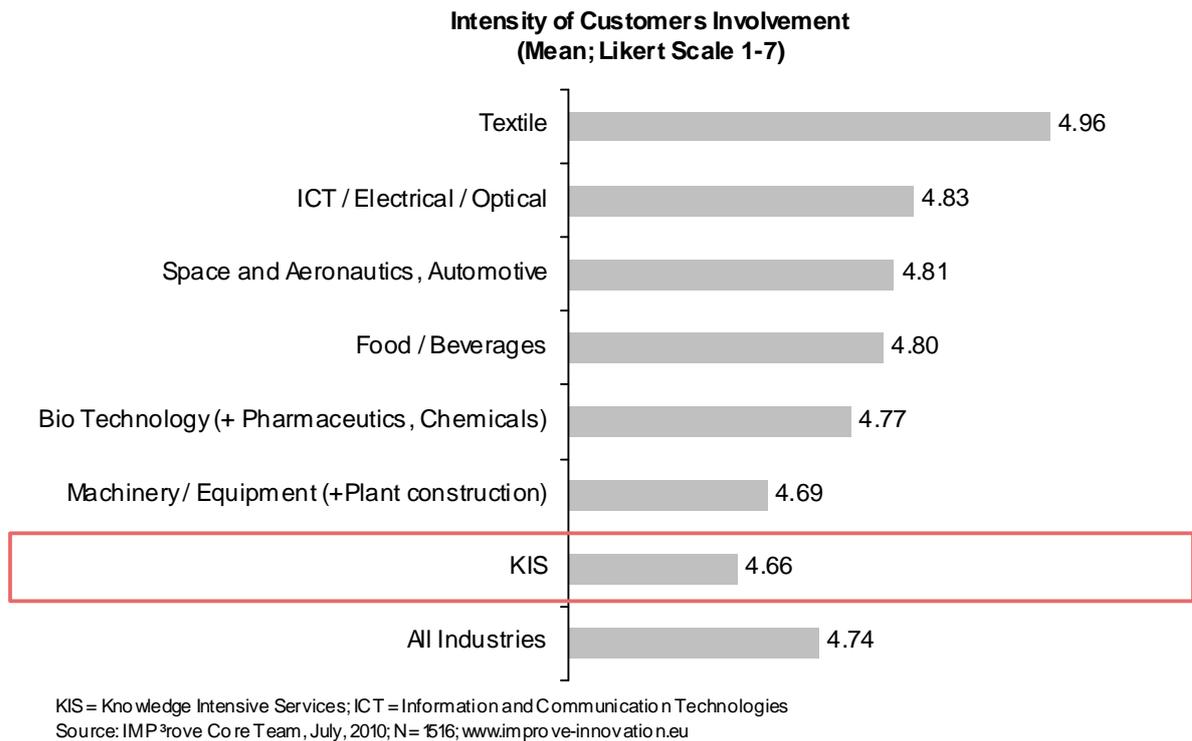
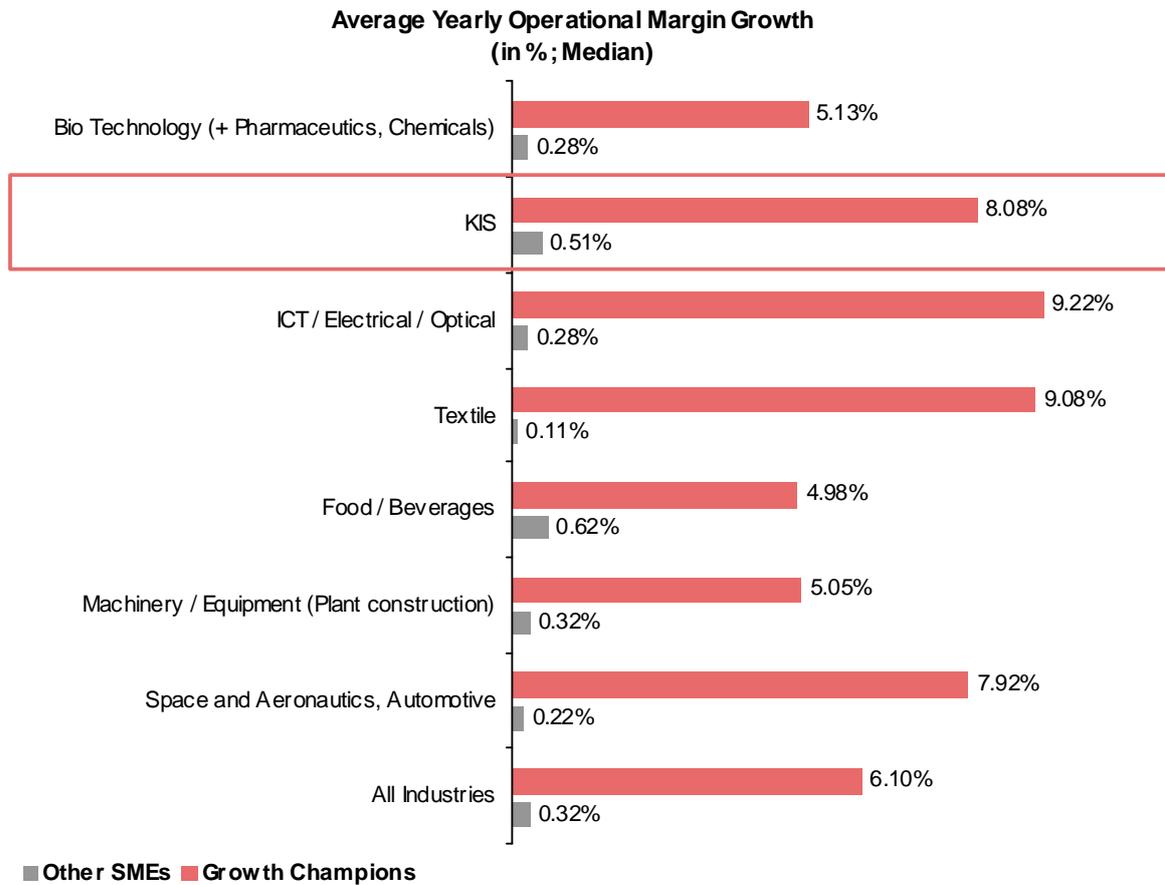


Figure 21: Intensity of Customer Involvement (Mean; Likert Scale 1-7)

5.3 Competing with the KIS Growth Champions

Growth Champions are setting the pace. They are the top performers in terms of profitable growth. They grow in three dimensions: Income, employment and profits. Profitability and profit growth allows them to grow in a sustainable manner. Considering all KIS firms of age 7 and older, the Growth Champions outperform their peers in terms of average yearly operational margin growth by more than 7 %. The Champions show an average growth of 8.08 %. Other KIS SMEs grow only by 0.51 % in terms of profits. This significant growth gap shows a large potential of profitable growth that has not yet been exploited. Imagine the remaining KIS companies were able to compete with the KIS Growth Champions? This would significantly impact Europe's wealth and competitiveness. Our results suggest that KIS firms should learn about the secrets that drive sustainable and profitable growth of those that are far ahead.



KIS= Knowledge Intensive Services; ICT= Information and Communication Technologies
 Source: IMP³rove Core Team, July, 2010; N=1157 (SME of Age 7 and Older); www.improve-innovation.eu

Figure 22: Operational Margin Growth: Growth Champions versus Others (Median; SMEs of Age 7 and Older)

6. Contribution of IMP³rove to Develop Future KIS Growth Champions

Given the numerous unexploited opportunities for KIS Growth Champions and even more so for the average KIS company, IMP³rove can help to develop future KIS Growth Champions in various yet effective ways. However, it is important to first understand the different needs of KIS companies depending on their level of proficiency in Innovation Management as driver for competitiveness and sustainable growth.

6.1 Moving KIS Companies from Innocence to Championship in Innovation Management

KIS companies still need to become more aware of the impact that Innovation Management has on their business. Growth Champions in other industries such as Space and Aeronautics or even Textile have understood much better that Innovation Management does contribute to their business performance. While the Growth Champions from KIS score only at 5.45 (on the Likert Scale 1-7), their peer in Textile marked 6.50 (see Figure 23)

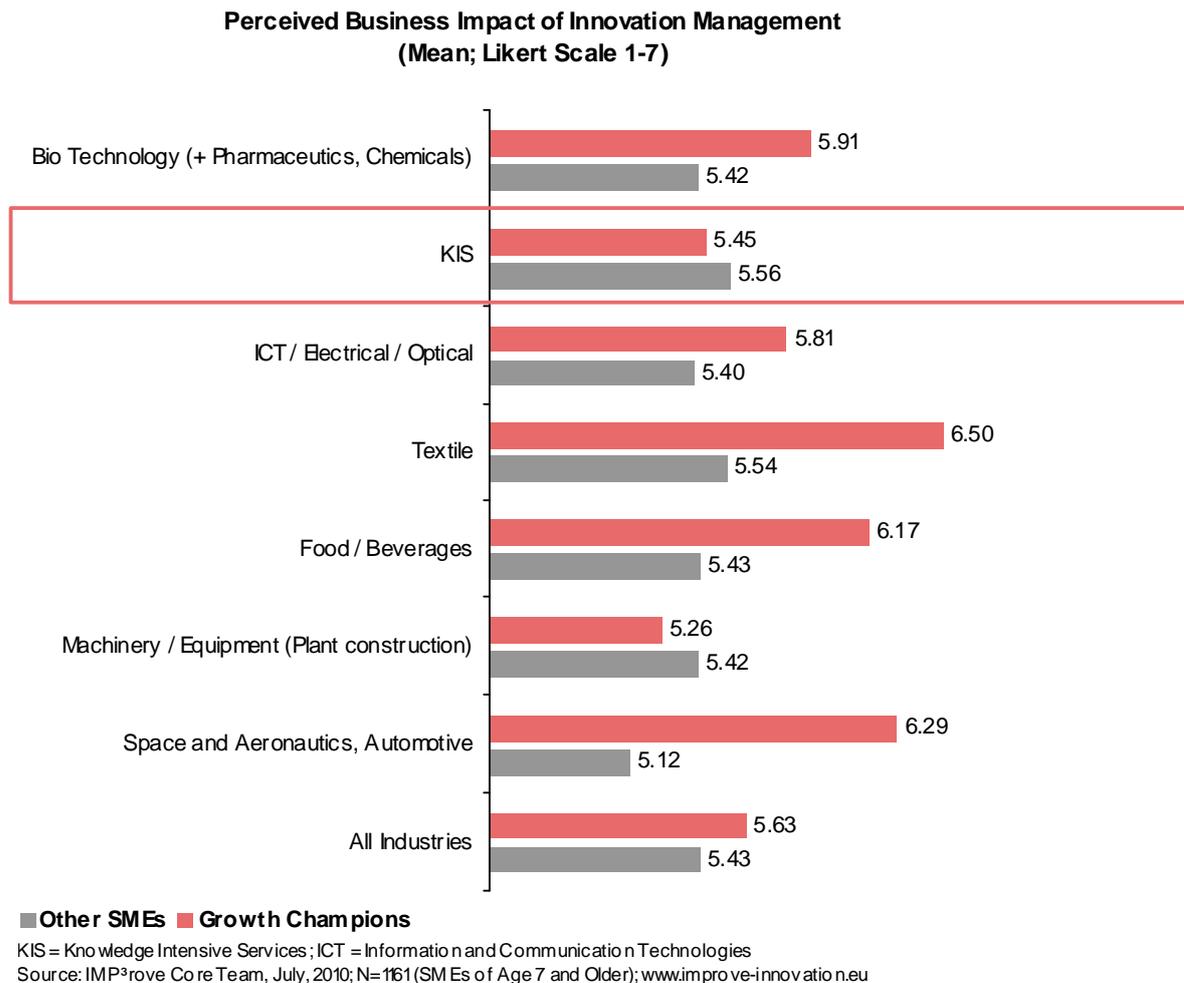
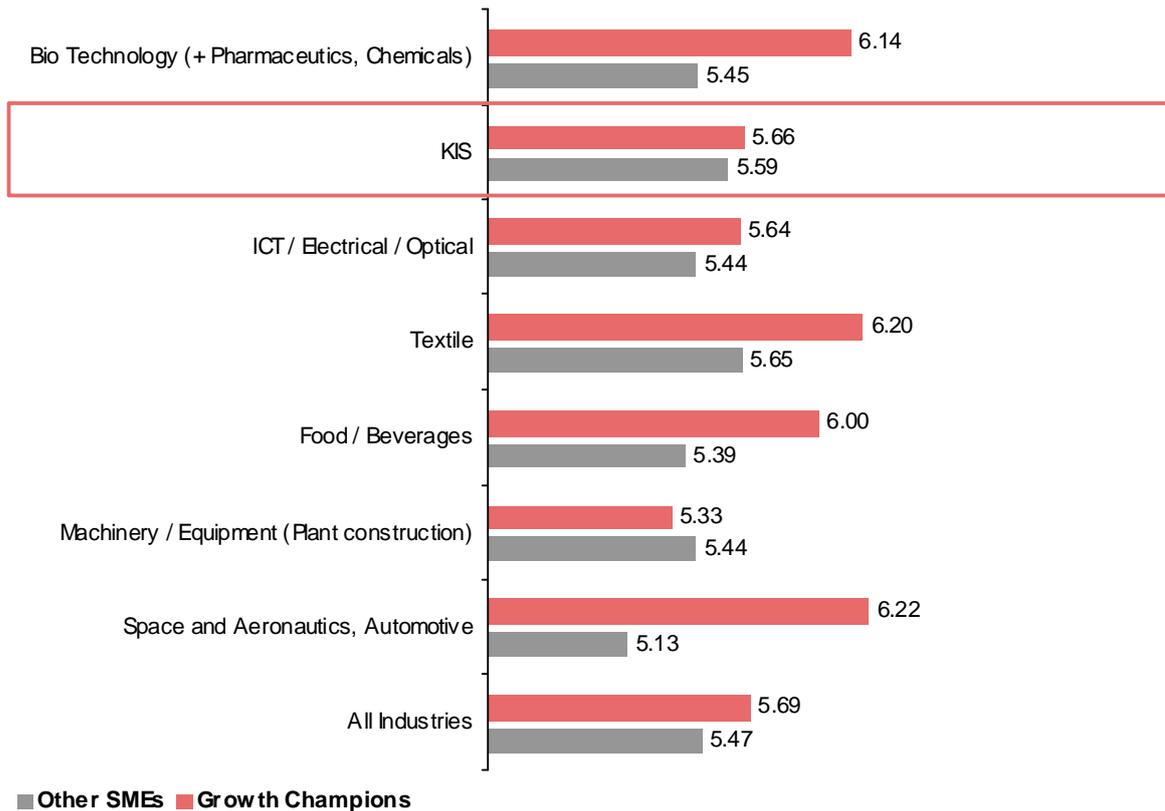


Figure 23: Perceived Impact of Innovation Management on Business Success (Likert scale 1-7)

Indeed, KIS companies have understood that they need to improve their Innovation Management performance. They are aware of the shortcomings of their current Innovation Management performance. However, they are not as aware as firms from other industry sectors such as Space and Aeronautics, Automotive or Bio Technology (see Figure 24).

**Perceived Improvement Potential in Innovation Management
(Mean; Likert Scale 1-7)**

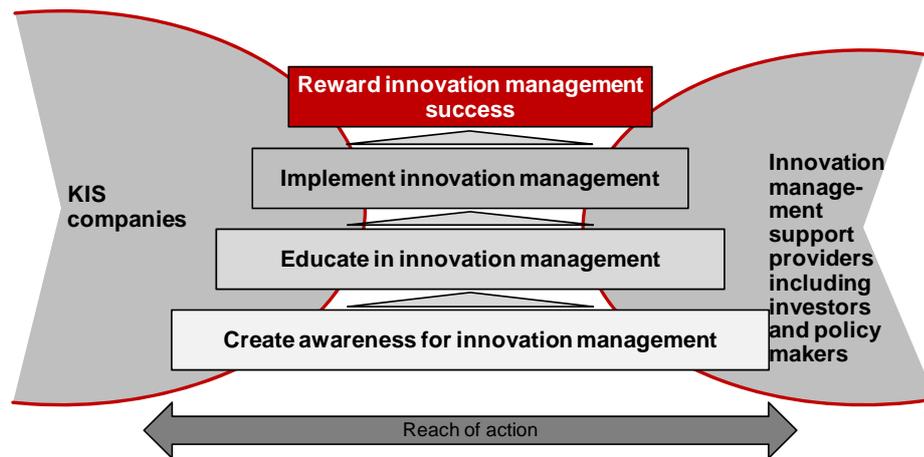


■ Other SMEs ■ Growth Champions

KIS = Knowledge Intensive Services; ICT = Information and Communication Technologies
Source: IMP³rove Core Team, July, 2010; N=1516 (SMEs of Age 7 and Older); www.improve-innovation.eu

Figure 24: Improvement potential for Innovation Management (Likert scale 1-7)

A significant level of awareness towards Innovation Management is the starting point of a KIS company’s journey towards long-term sustainable growth. However, Innovation Management support providers including financial investors and policy makers also need to become aware of Innovation Management as key driver for sustainable growth before they can be trained in Innovation Management and learn how to leverage it effectively for competitiveness. Only then, when all players that make innovation happen know the secrets about Innovation Management, it can be further developed in their organisations and the success from Innovation Management rewarded.



Source: IMP³rove Core Team 2010

Figure 25: A Systematic Approach to Further Developing Innovation Management at KIS

It is essential, that the entire “eco-system” for Innovation Management development is included. KIS as well as financial actors and public agencies suffer when they receive support services that are of low quality and not geared to business impact from Innovation Management. The KIS companies and financial actors might lose money with the risk that they have to lay-off people. This in turn is against the strategic intent of public agencies that spend tax money on the KIS companies to develop the economy.

6.2 IMP³rove to Fuel the Growth Engine in the KIS Sector

IMP³rove offers well-tested Innovation Management support services that have been successfully implemented at KIS SMEs in numerous EU member states and beyond.

Creating Awareness for Innovation Management

With the largest and most up-to-date database on Innovation Management of SMEs a realistic picture of the current KIS growth performance can be drawn easily as the analyses above demonstrate. Policy makers, financial actors, innovation agencies, cluster manager or consultants gain valuable insights in the challenges that these SMEs have to master.

These insights can be leveraged by all the support service providers working with KIS to provide the facts and figures that Innovation Management pays off. They can eliminate the often circulated myth, that Innovation Management is only for larger corporation and too complex for SMEs, or that it is only for manufacturing companies as KIS companies don't produce any innovative goods. The excuse that KIS SMEs don't have the time to further develop their Innovation Management especially in times of crises can now be countered as even the impact of the innovation culture on the business performance becomes measurable by IMP³rove. Innovation Management does help KIS companies to better cope with the effects of a crisis.

Educating in Innovation Management

The IMP³rove process is a highly effective means to educate KIS SMEs in the various dimensions of Innovation Management. By filling in the IMP³rove Assessment questionnaire they have a very practical and hands-on learning experience which dimensions of Innovation Management they have to better manage.

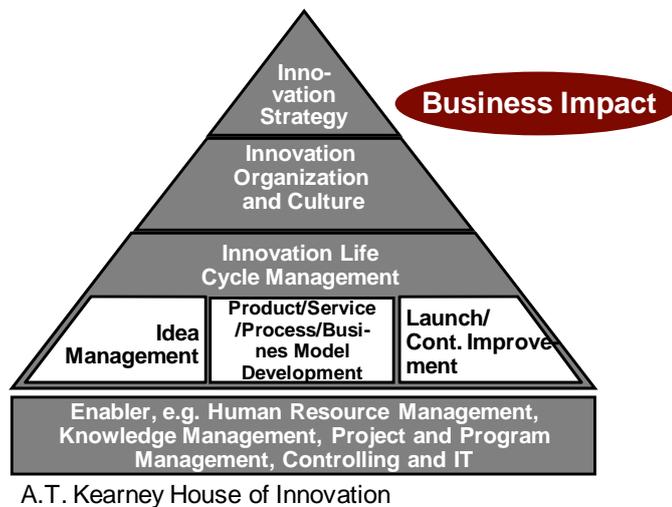


Figure 26: "The A.T. Kearney House of Innovation"

The IMP³rove Assessment reports show KIS companies, what the Growth Champions in their industry do differently. They immediately can learn from current "good practice". The IMP³rove Assessment report guides the KIS SME to address those often hidden areas that cause the loss of money.

The trained IMP³rove consultants – there are more than 400 across Europe (https://www.improve-innovation.eu/improve/UserList/UserList.do?type=DIRECTORY_CONSULTANTS) – are at the disposal of KIS companies, their financial investors, intermediaries, innovation agencies and policy makers to effectively assist the SMEs in the development of their Innovation Management capabilities. The IMP³rove consultants are trained to focus the improvement measures on tangible impact.

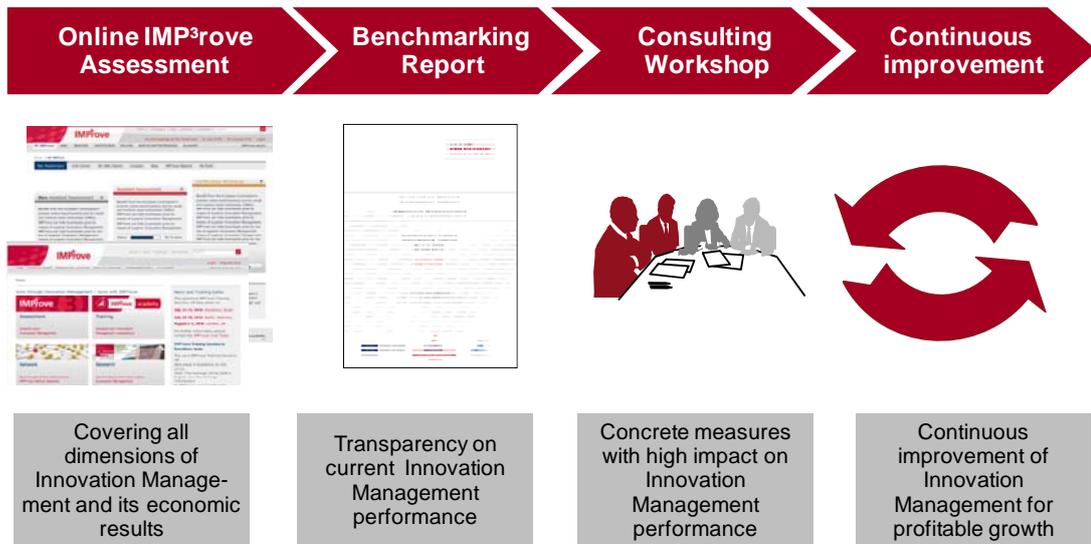
Differentiating the levels of proficiency in Innovation Management increases the transparency in the Innovation Management consulting market. IMP³rove Guide, IMP³rove Expert level I, IMP³rove Expert level II and IMP³rove Auditor are the defined categories. Courses to receive the respective level of proficiency are offered on an international basis by the IMP³rove – European Innovation Management Academy (www.improve-innovation.eu) throughout Europe.

Education on Innovation Management is also provided by the IMP³rove – European Innovation Management Academy and other academic institutions applying the IMP³rove Approach to train students in Innovation Management. The students are either Innovation Management support providers, employees of SMEs or intermediaries.

Given the importance of KIS as the growth engine in Europe, the curriculum of the IMP³rove - European Innovation Management Academy can be complemented by courses with special focus on the needs of KIS SMEs.

Implementing Innovation Management

Experience has shown that improvements in Innovation Management at SMEs are better embedded in the organization, when there is professional support. Therefore, IMP³rove now offers seamless support by trained Innovation Management experts from the beginning of the assessment phase to the definition and implementation of measure to improve the KIS SMEs Innovation Management capabilities, including Innovation Management audits.



Source: IMP3rove Core Team, 2010 ; www.improve-innovation.eu; IMP3rove is a registered trademark

Figure 27: The Seamless IMP3rove Process

As even the KIS Growth Champions face fierce competition, the continuous improvement and regular quality check on the KIS company's Innovation Management performance are integral parts of the IMP3rove process.

Reward Innovation Management Success

The best reward for a KIS company is certainly the profitable growth driven by innovative services. However, the acknowledgement of the efforts taken by KIS companies in the public should not be under-estimated as a highly appreciated reward. Therefore, public institutions, academia or media can leverage the IMP3rove Award to create role models for other KIS companies to follow. The IMP3rove Award also enhances the visibility of the public programs supporting KIS companies in improving their Innovation Management.

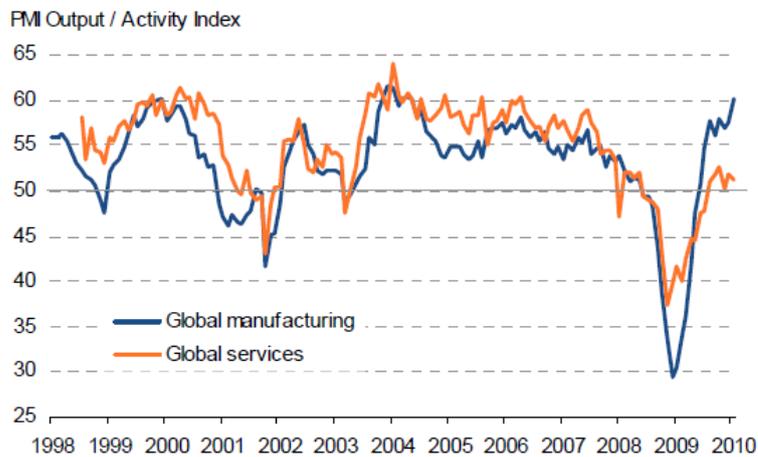
Based on our experience, rewards for innovative SMEs should focus on the end of the Innovation Management process, when the company is making profit from their innovations. Most of the publicly funded programs focus too much on the front end with the result that they don't incentivize the focus on profitable growth, and on increasing the competitiveness of the SME. Results from the IMP3rove database show that many SMEs which received public funds didn't grow profitably. Some of them even went bankrupt as they didn't have a sufficiently effective Innovation Management in place to focus on the business results from their publicly funded innovation projects.

7. Policy recommendations for Driving Profitable Growth

Profitable growth of SMEs is more than ever important given the current economic crisis. Such situations require innovative measure – also from policy makers to provide for the conditions of a better future for Europe.

7.1 A Future for Europe

The average growth in number of employees over the last 4 years in the KIS sector is almost 13 % and almost 7 % over all industries (see figure Figure 3). We are convinced that these figures could be increased if the average (KIS) company would adopt the “good practices” in Innovation Management from the (KIS) Growth Champions. This is urgent as the service sector is stumbling out of the financial crisis more than the manufacturing sector that eventually surges.



Source: Markit, JPMorgan.

Figure 28: Comparison of Global Manufacturing and Global Services Activity Index.

Some high-tech companies (9 %) where innovation is essential for the survival of the company have increased their innovation expenditure during the crisis while 22 % of the companies cut back their innovation spend (European Competitive Report 2009, European Commission, Commission Staff Working Document SEC (2009)1657 final). Innovation expenditure is an indicator that shows to what extent these companies invest in innovation. However it is not an indicator that shows to what extent these companies increase their competitiveness. Here, the IMP³rove approach establishes the link between Innovation Management activities and business performance.

The Innovation Statistics for the European Service Sector, 2007 already stated the need for better innovation programs.⁸ In 2007 the financial and economic crisis was hardly seen on the horizon. Today with the crisis fully evolved, the need for more effective innovation programs is even higher.

⁸ Innovation Statistics for the European Service Sector, 2007 by Anthony Arundel, Minna Kanerva, Adriana van Cruysen, and Hugo Hollanders, ProINNO Europe Inno Metrics

The urgency for action in some European countries is almost “life-threatening”. Spain has an unemployment rate of more than 18 % (approx. 4 million people) and a deficit of more than 11 % of the GDP. 75 % of the GDP comes from the more than 3 million SMEs. Hence, the SMEs are the backbone of the Spanish economy. The situation in Greece and Italy is similar, although the root causes might be different.

The innovation programs here need to be as effective as possible. Governments can learn from the companies. The majority there didn't reduce their innovation expenditures in preparation for the times after the crisis. They wanted to come out of the crisis even stronger.

7.2 Innovative Approaches to Recover from the Crises

IMP³rove - the European Commission's initiative for better support in Innovation Management of SMEs now has the chance to demonstrate its effectiveness by supporting the public authorities in:

- Identifying the most promising SMEs that are able to contribute to the urgently needed up-turn of the economy

The most promising SMEs seem to be those who already have developed their Innovation Management capabilities for increased competitiveness and growth.

- Effectively supporting these SMEs in further developing their competitiveness for a significant contribution to employment, and tax revenues

SMEs who have reached a minimum level of Innovation Management capabilities still require professional support to better focus their Innovation Management activities on truly profitable growth and not just on more and more innovation projects with uncertain outcome. The differences between the average SME and the Growth Champions in the IMP³rove database give a first hint on the performance gap of the two groups. Growth Champions can serve as role model for the other SMEs.

Through clusters, innovation agencies, development agencies etc. SMEs from KIS and the manufacturing sectors can share the learning experience of successful improvements of their Innovation Management based on the common IMP³rove process.

- Investigate in the most effective “incentive” systems for SMEs with the highest contribution to mastering the crisis

Policies that promote innovation should much more focus on the SME's self-sustainability. Therefore, it might have more impact when successful innovations are rewarded by a tax reduction that promotes the re-investment of profit into the next generation of innovations. Those programs from the past that focus on technology transfer, idea generation often had little impact as the SME didn't have the Innovation Management capabilities in place to effectively integrate the new technology or the new ideas.

- Measure the impact of the support actions

Developing Innovation Management at SMEs has a clear focus: increasing the profitable growth of the company. This is documented in the number of employees, growth in income and growth in profit margin. Short- and longer-term impact of the support measures to improve Innovation Management are collected within the IMP³rove process on a regular basis from SMEs and the consultants. This ensures the transparency of successful measures and of the overall economic impact. As for each step within the IMP³rove process measurable tar-

gets need to be defined, the focus on the overall economic impact is secured for all improvement activities.

7.3 IMP³rove – a European Ready-to-Use Standard to Master the Crisis

IMP³rove has been adopted in all European member states. It has established a network and an infrastructure to effectively develop the innovation performance. This offers a consistent high quality approach to increase the competitiveness of the SMEs based on better Innovation Management. With that the SMEs can contribute to a return of economic prosperity.

IMP³rove has demonstrated its impact already during the first phase of dissemination as described in the report on “IMP³rove – a European Project with Impact: 50 Success Stories on Innovation Management” (Europe INNOVA Paper No 14).

The clear focus on business impact helps policy makers to prove the value-added from the programs that they have launched. A benchmark could be for example when 10 million Euro public funding are spent on a defined number of SMEs at least 100 million Euro increase in tax revenue within a reasonable period of time should be expected. This additional tax income may come from the companies that achieved higher revenues and profit margins and/or from the increased number of employees that are no longer unemployed and contribute to the wealth of a region or country. With this kind of target-setting for public funding, the money has to be distributed diligently to the “right” SMEs – those who have the Innovation Management capabilities to generate value-added. IMP³rove is there to identify these SMEs.

Policy makers now can learn from those that have already integrated the IMP³rove Approach into their policies to overcome the economic crisis in Europe and regain the leading role in the global economy. The tools and approaches are there – tested and ready to be applied.

8. Appendix: IMP³rove – the Powerful Source for Thought-Leadership in Innovation Management

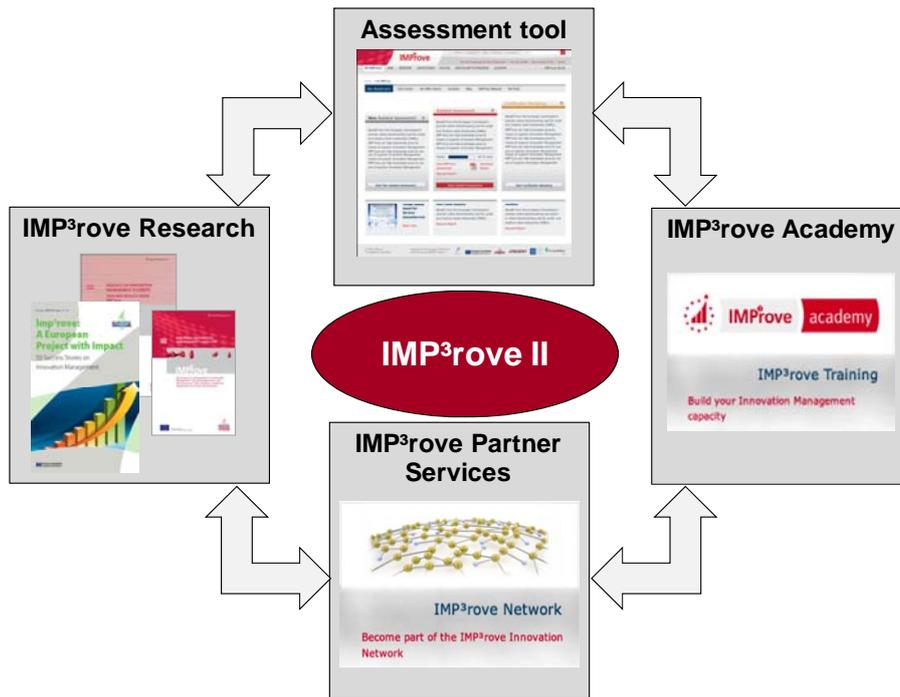
8.1 IMP³rove – the Holistic Approach to Better Innovation Management Results in Europe

This study builds upon IMP³rove - the initiative of the European Commission, DG Enterprise and Industry for better support of Innovation Management at small and medium sized enterprises. It aims at improving the Innovation Management capabilities and performance in Europe as a pre-requisite for sustainable competitiveness in a global economy.

As IMP³rove stands for **IMP**roving **I**nnovation **M**anagement **P**erformance with sustainable **IMP**act, this mission is brought to live in the four main pillars of the IMP³rove initiative:

- The IMP³rove Assessments embedded in the IMP³rove process for competitiveness and sustainable growth by Innovation Management
- The IMP³rove – European Innovation Management Academy
- The IMP³rove research results
- The IMP³rove Partner services

These four pillars of IMP³rove are all geared to deliver impact to the various beneficiaries. IMP³rove offers value to innovative SMEs, Innovation Management consultants and other professionals supporting SMEs in their attempt to further develop their Innovation Management capabilities. IMP³rove also adds value to intermediaries such as cluster managers, or to innovation agencies, development agencies, financial investors, academia and last but not least for policy makers.



Source: IMP³rove Core Team, 2010 ; www.improve-innovation.eu; IMP³rove is a registered trademark

Figure 29: The IMP³rove Services

The **IMP³rove Assessments** take a holistic approach to the assessment of Innovation Management as a key driver for competitiveness. IMP³rove offers two types of Innovation Management assessment: The IMP³rove Assessment and the IMP³rove Root/Cause Analysis. Thanks to high quality benchmarking the benchmarking reports provide valuable insights on the company's competitiveness, strengths and weaknesses in leveraging Innovation Management for sustainable growth. These reports are the starting point for the IMP³rove process to continuously further develop the SMEs Innovation Management capabilities. This also includes a rigorous alignment of the Innovation Management with the business targets, and the sustainable growth.

The **IMP³rove – European Innovation Management Academy** combines education and research in innovation in small and medium sized enterprises. It addresses the existing market needs for academic research and high quality education targeting the needs of SMEs. The IMP³rove – European Innovation Management Academy offers a well defined curriculum for Innovation Management professionals to develop their proficiency in Innovation Management and in Innovation Management consulting. These levels of proficiency include: IMP³rove Guide, IMP³rove Expert level I, IMP³rove Expert level II and IMP³rove Auditor. Certificates for each level are issued by the IMP³rove – European Innovation Management Academy. With these different levels of proficiency the transparency in the market for professional support services in Innovation Management will be increased.

The **IMP³rove Research** builds upon the IMP³rove database, the IMP³rove processes and the experience gathered within the IMP³rove Partner network. Research covers the latest trends and thinking in Innovation Management but also in developing a high-quality Innovation Management “infrastructure” in Europe. Empirical evaluation on SMEs’ Innovation Management and competitive performance is performed as well as analyses of better tools and approaches in support of SMEs for improving the competitiveness in Europe.

The **IMP³rove Partner Services** are closely linked to the other pillars of IMP³rove mentioned above. These services are designed for the continuously growing international IMP³rove network of more than 400 partners. Networking activities, workshops on key issues related to Innovation Management

and competitiveness in Europe, direct support in disseminating the IMP³rove approach as a European standard are just a few of the services that are offered.

8.2 The IMP³rove Benchmarking Database

The IMP³rove database represents one of the largest and most up-to-date databases on Innovation Management in SMEs. By July 2010 nearly 3000 SMEs have registered on the IMP³rove platform to assess their Innovation Management based on the structured IMP³rove benchmarking questionnaire. More than 2700 SMEs have completed the IMP³rove Assessment⁹.

This study builds upon a database of 1516 assessments that were completed between May 2007 and July 2010. All datasets were validated based on pre-defined criteria and state-of-the art statistical evaluation procedures (e.g. outliers that show a significant deviance from the sample mean were removed). Statistical analyses were executed based on state-of-the art statistic software.

The analysis covers a wide range of SMEs from different size and age classes. It includes both small and larger SMEs. In turn, it caters for the need to investigate the challenges and opportunities for different kinds of KIS firms (see Figure 30).

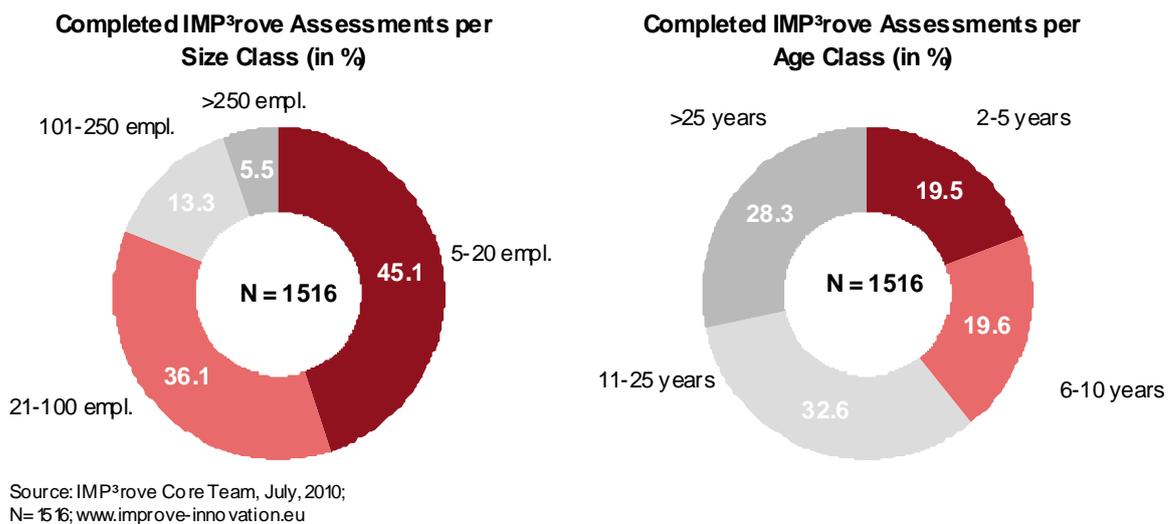
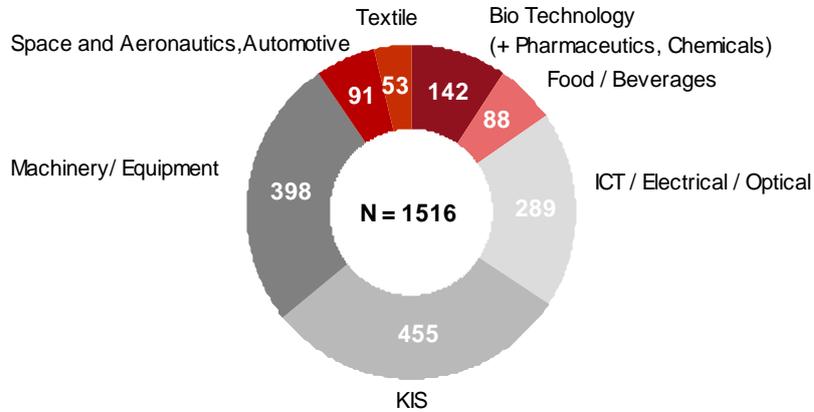


Figure 30: Distribution of Datasets per Age and Size Class, Status July 2010

IMP³rove covers SMEs from different industry groups. SMEs from Knowledge-intensive Services were included in the sample along with 6 other innovative industry groups (see Figure 31). 455 firms from KIS constitute the largest industry group in the IMP³rove database. This represents the “Knowledge-Intensive” nature of value creation in Europe. It allows a thorough analysis of Innovation Management in European SMEs.

⁹ See IMP³rove Status Report July, 2010 at www.improve-innovation.eu

Total Number of Completed IMP³rove Assessments per Industry Group

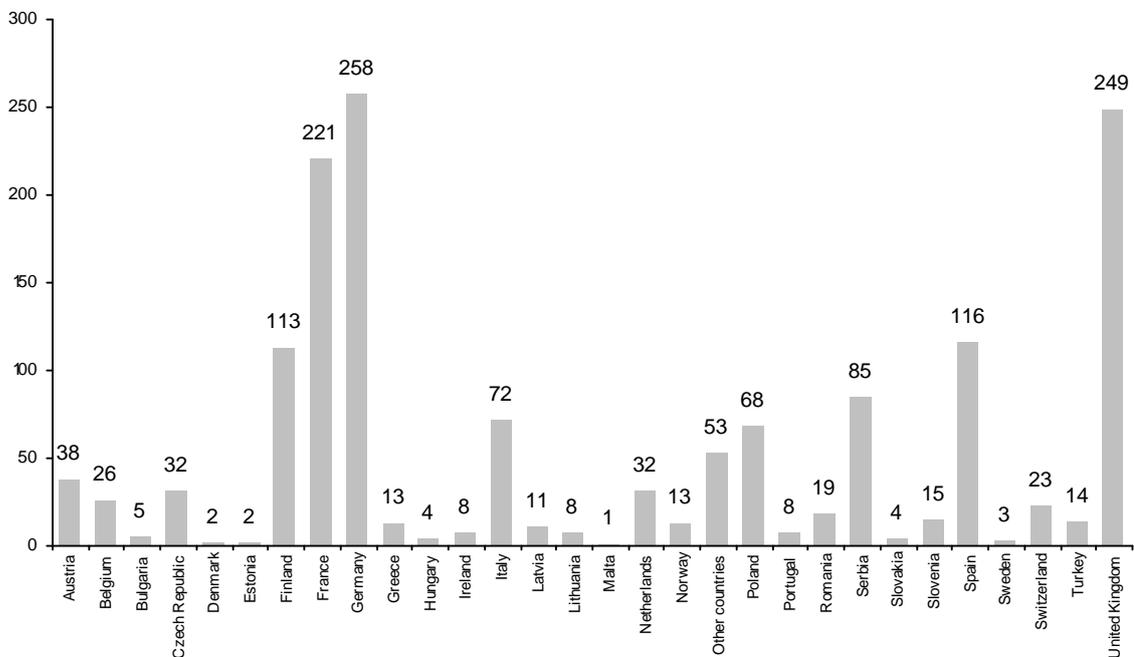


KIS = Knowledge Intensive Services; ICT = Information and Communication Technologies
 Source: IMP³rove Core Team, July, 2010; N= 1516; www.improve-innovation.eu

Figure 31: Number of Firms per Industry Group, Status July 2010

IMP³rove covers SMEs from different European countries. Figure 32 shows that the IMP³rove database reflects that the European economy is a “service economy”.

Total Number of Completed IMP³rove Assessments by Country



Source: IMP³rove Core Team, July, 2010; N= 1516; www.improve-innovation.eu

Figure 32: Representation of European and other Countries in the IMP³rove Database

As shown in Figure 33, UK shows the highest absolute value of KIS SMEs and also the highest relative share of KIS SMEs. UK is closely followed by France with 70 SMEs from KIS sectors. In Finland, KIS also show a high share among the total sample. It points out the importance of KIS in these regions.

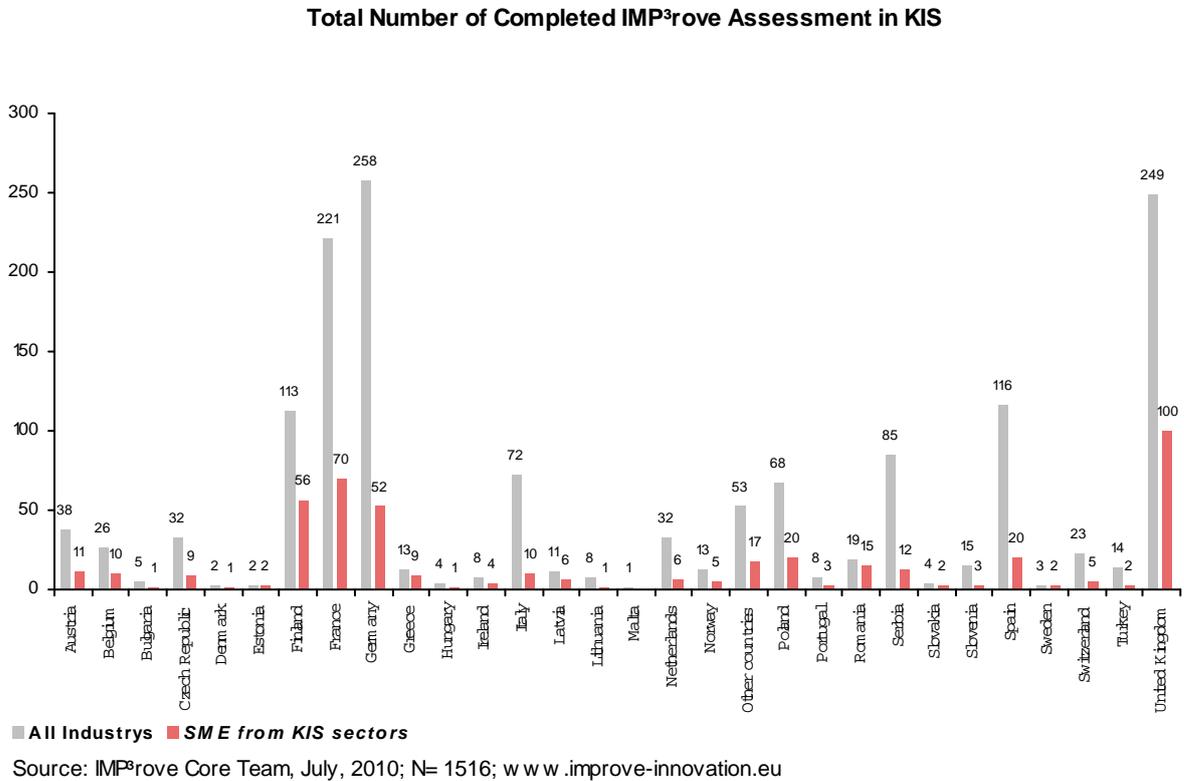


Figure 33: Distribution of KIS sectors across Countries

The IMP³rove database will be continuously further developed both in terms of size, geographic coverage as well as in terms of innovation related topics. Thus the IMP³rove database will maintain its topicality and value for further research on Innovation Management.

9. List of Abbreviations

EU European Union

GDP Gross Domestic Product

ICT Information and Communication Technologies

KIBS Knowledge Intensive Business Services

KIS Knowledge-intensive Services

NACE Nomenclature Statistique des Activités Economiques dans la Communauté Européenne

SME Small and Medium Sized Enterprise

R&D Research & Development

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