Innovating in conditions of scarce financial resources

by Carlo Clementi

An increasing number of companies and institutions are confronted with situations of financial resources shortage, which limit the chances of investment in innovation and consequently their development. Therefore, it is necessary to wonder whether organizations should suspend their innovation projects in these contexts, being temporarily satisfied to survive in more limited operating areas, or find solutions that use their innovative potential differently.

In order to be clear on what follows, it is necessary to define what is meant by innovation. Innovation is an invention, something new, which satisfies three aspects at the same time, stimulating customers to purchasing activities, having the ability to generate value for them, and producing revenue for the company. Innovation for companies or organizations is a complex issue, as it entails awareness of two aspects of fundamental importance. The first is related to the concept of the system. Today, a process of innovation is no longer limited to the "tout-court" research and development activity but represents a collaborative process within a composite relational network, made up of employees, partners, stakeholders, institutions and customers. The second is represented by the growing importance attributed to the development and management of intangible factors, as essential elements in the process of creating value and generating new market opportunities. Whether they are resources, such as disciplinary knowledge, systemic quality, organizational reliability, corporate morale, cross-functional competence, or assets such as intellectual property, goodwill, brand, relationship with customers, these immaterial factors require a specific awareness by the company, which implies different management methods with respect to the most common production guidelines.

The innovation process is by nature intangible and, because of its specificity, it avoids a purely transactional logic as for the information asymmetry that exists between the company and the financial world. This asymmetry is mainly due to the lack of immediacy in attributing an intrinsic value to innovation and to the uncertainty about its perfect transferability. For this reason, the financial resources provided to support innovation projects discount higher interest rates, due to the additional risk generated by the degree of uncertainty assumed by the contractors. Consequently, companies and institutions usually rely on internal sources of financing, in the form of capital and profits. However, if the financial capital supply is considered a constraint, rather than a limit, it can be used as a selection parameter for innovation projects in line with the company resources available. This implies that instead of using resources in projects that may not receive the financial support needed, the latter would be more profitably employed defining a priority among innovations in portfolio.

Recent studies highlighted that financial shortages are more common in SMEs, due to a constrained company's capitalization, reduced cash flow, or limited access to credit market. For this cluster, financial resources are mainly used for short-term needs, to support the development of revenues on various markets, to make the internal structure efficient, or to improve commercial flexibility due to an increasingly complex demand. Furthermore, it was recognized no direct relationship between R&D spending and company success in transferring innovations to the market. Analyzing the expenditure in R&D of the most dynamic companies in terms of innovation on global markets, investments are markedly below the sector average. The reason is that R&D spending only satisfies the technical functionality and the risk associated with it, but it does not guarantee anything about its market success. Therefore, companies wishing to pursue a path of innovation must activate skills and processes that allow their corporate models to promote and sustain a culture of continuous innovation and a close relationship with their current and potential customers. The most successful companies in the commercial exploitation of innovations show the joint presence of some capabilities that contribute particularly to the affirmation of their business models:

1- The capability to equip, train, retain or collaborate with talented individuals, those who can see and do things differently from normal standards and that are not necessarily industry experts;
2- The capability to develop and implement processes and procedures for managing intangible factors, which are not derived from the manufacturing environment;
3- The capability to define conceptual and evaluative models that allow the making and completion of informed and appropriate decisions, which are not necessarily in line with the traditional organizational policy guidelines;

4- The capability to align investments in innovation with the strategic vision, creating a service ecosystem, fostering a long-term relationship between the company and the customer.

These competences would not be able to express their full potential if they were not integrated, through an adequate organizational architecture in terms of communication, coordination and collaboration, into the strategic objectives pursued by the company or the institution.

Although cases of innovation are extremely diverse in the various organizational contexts, nevertheless it is possible to identify recurring practices in the most successful companies, regardless of their size.

1- The team entrusted with innovation develops and defines its activities apart from the company's core business, since innovation requires distinct methods and procedures from the current activities;
2- The support of top management is important in developing a culture of innovation and change, while the middle-manage involvement is fundamental for all the operating activities;
3- The team must have clear project constraints within which to develop and optimize their own innovation;
4- The organization must clearly define criteria for alignment between innovation and company strategy;
5- The organization must select innovation projects based on the real expectations of final consumers and existing technology.