
Colleges and Institutes and Canada's SMEs: A Partnership for Innovation



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Section I - Introduction

The report on *Colleges and Institutes and Canada's SMEs: A Partnership for Innovation* is a call to action to our governments to recognize the enormous importance of our country's one million small and -medium- sized enterprises to our national standard of living. It is a call to action to support innovation in our SMEs so that they collectively will become more productive and more competitive.

What is Innovation?

Innovation is a multi-faceted word and a complex process. An innovation can be something new, such as a new product, process, or service. It can also be a change in a product, process or service brought about by the incorporation or application of something new, such as a new technology or new business model.

As a process, innovation is part of a chain of development that includes research leading to discovery; development of new technologies or new applications of existing technologies; business development; commercialization of new technologies or knowledge; or adoption of new knowledge or practice to add value to existing products, processes, or services. The *innovation chain* is often described as responding to "technology push" - the movement of new technologies or knowledge from basic research institutions to commercial products or processes; or respond to "market pull" – the incorporation of new technologies or knowledge by business and industry to solve problems and meet goals.

What has been our country's investment history in Innovation?

Both federal and provincial investments in innovation activities over the past decade have overwhelmingly been focused on "technology push", with enormous investments made in largely university-based research with the goal of discovery of new knowledge and new science or the development of new technologies. With Canada's historical production of only about 4% of global new knowledge, it has been argued by universities and other research institutions that more investment is needed in the production processes for new knowledge – a very high risk and expensive endeavour. In the past few years, with evidence mounting of poor commercialization of new knowledge despite the huge investments made, governments have increasingly invested in commercialization activities. However, the focus is still on moving discovery to commercial products, a "technology push" approach.

Very little investment attention has been given to "market pull" strategies, particularly in the context of the development and support for innovation activities in SMEs.

What happens when we focus on Innovation as discovery?

When you view innovation as discovery of new knowledge, decision making processes for investments are focused on a specific band of questions and decision support mechanisms.

The questions asked to fuel discovery innovation include:

- How can we as a country attract and retain the best minds?
- How can we build the infrastructure to create new science and knowledge?
- How can we commercialize the new knowledge created?
- In what sectors of new knowledge development can we be the best in the world?

Decision-making processes include:

- Investments through competitive calls for research activities that focus almost exclusively on discovery
- Establishment of competitive guidelines and review processes that focus on the basic research and publication history of researchers, and the research infrastructure of the institution
- Peer review as the main method of reviewing research applications
- Focus on large science-based investments
- Long time periods between funding announcements and decisions
- Longer term expectations of results and outcomes from investments
- Performance measures that focus on patents, licenses, and spin-off companies

What happens when we focus on innovation from the “market pull” philosophy?

When you view innovation as being led by industry needs, goals, and problems, the questions asked for investment bodies are much different. They include:

- How can we help business identify and qualify new knowledge that might be of value to them?
- How can we help business incorporate valuable new knowledge to develop new products, processes and services or improve existing ones?
- How can we help business attract the best employees who will help them with innovation activities?
- How can we help business stay in business?

Decision-making processes are characterized by:

- Establishment of competitive guidelines for investments that focus on applied research and product/process development
- Review panels that include industry and that focus on the research team’s ability to work with industry to solve problems and meet goals
- Frequent focus on small scale projects, with quick results and immediate impact
- Performance measures that focus on the number of new products and processes, the number of improved or value-added products and processes, the increase in the number of employees, and increased revenues

The vital importance of our SMEs in Canada

Section II - *Canada’s SMEs* - demonstrates clearly the vital importance to the Canadian economy and standard of living of the health of our one million small and medium enterprises. It makes the case that support for innovation activities that will make even small improvements in the overall performance of SMEs would make a significant and profound collective impact on Canada’s overall economic health, and help our country return to its top performing status in the global community.

A Call to Action to support Innovation activities for our SMEs

This report makes the case that SMEs need support for research and development activities that are focused on their needs and goals, and the productivity and competitiveness of their businesses. SMEs need help sourcing and incorporating new knowledge and technology. SMEs need help developing and testing new and improved products, processes, and services. SMEs need entrepreneurial skilled employees and business management structures that enable them to be innovative.

It is time for Canada to look at its enormous investments in research from the perspective of its SME community. It is time for Canada to balance its investments in research more equitably between support for large scale discovery research and support for industry-led applied research and development.

Colleges and institutes are the natural choice for Canada to support our SMEs

There are 150 colleges and institutes in Canada located in over 1000 communities of the country. No other institutional infrastructure exists in Canada with this breadth and impact. Colleges and institutes are mandated to support economic development. They develop and deliver programs that meet the economic needs of their regions. They help businesses start, develop and grow. In partnership with business, colleges and institutes conduct industry-led applied research and development activities that enable businesses to improve, develop new or improved products, processes and services – to become better at what they do.

Colleges and institutes are at the heart of a new focus on the competitiveness of Canada's SMEs that is the call to action of this paper.

It is time for our governments to pay serious attention to the needs of our SMEs in their investments in innovation. It is time to pay serious attention to the supports colleges and institutes need to help our SMEs become more innovative.

Section II - Canada's SMEs

This section which was led by VISTA Science & Technology Inc. was co-funded by ACCC and Niagara College.

The following illustrates the importance of the relationship between Canada's productivity, competitiveness and standard of living; the growth and sustainability of small and medium enterprises (SMEs); and the need to build a capacity for innovation within SMEs. Since SMEs are the foundation of Canada's economy, improvements in national productivity, competitiveness, standard of living and quality of life will come from improving the sustainability and growth of Canada's 1 million SMEs. Incremental improvements in SMEs will have a significant collective impact on Canada's productivity. Improving the ability and capacity of SMEs to grasp opportunities for innovation is the key to improved sustainability and growth in SMEs and Canada's prosperity.

Key Messages

- Continued decline in international performance measures and benchmarks, especially productivity, threatens our Canadian standard of living, our ability to compete in emerging global markets and our ability to continue to support social programs that have become the hallmark of Canadian culture.
- The foundation of Canada's economy is small and medium sized enterprises (SMEs). More than 99% of Canadian businesses are classified as SMEs. They are the key to Canada's economic growth and subsequent prosperity as a nation. SMEs make a significant and profound impact on Canada's economy and therefore will be the source of improvement needed to return Canada as world-class, top performing nation.
- The collective impact of small improvements in overall performance and survival of SMEs on Canada's productivity would be significant.
- The capacity and ability to innovate is a critical determinant for productivity and growth.
- Innovation is defined as applying new ideas in a way that produces new value for the organization. New ideas do not mean "new to the world". New ideas mean "new to the organization".
- Improving the productivity of SMEs by increasing their capacity for innovation will lead to those outcomes and impacts most valued by Canadians: job creation, prosperity, and quality of life.

Sliding Down the Slippery Slope

Continued decline in international performance measures and benchmarks threatens our Canadian standard of living and our ability to compete in emerging global markets. It jeopardizes our ability to continue to support social programs that have become the hallmark of Canadian culture.

Canada's relative performance internationally has been declining over the past 10 years. In a recent report by the Conference Board of Canada, Canada's ranking declined in 4 out of 6 performance indicators and its top 12 position was threatened in two.ⁱ In the economy category, Canada has declined from 3rd in 2003 to 12th in 2005.ⁱⁱ Low productivity is our most significant weakness. Not only is Canada not making adequate productivity improvements; other countries are out performing us. Canada had one of the poorest performances in manufacturing productivity growth among major industrialized economies from 1995 – 2000. Canada has experienced a slowdown in productivity growth since the 1960's in both general business and manufacturing.ⁱⁱⁱ Canada declined from 13th to 16th in 2006 on the Global Competitiveness Index of the World Economic Forum.^{iv}

In innovation, Canada has dropped from 4th to 5th since 2004.^v Despite significant increases in R&D funding (a standard measure of innovation) over the past decade, Canada still has one of the lowest investment levels in R&D.^{vi} As a proportion of GDP, our investment in R&D has actually been declining.^{vii} In 2004, the federal investment in R&D as a percentage of GDP was 0.38%.^{viii} Public investment in business R&D as a percentage of GDP was 0.02% in 2004, which is significantly below the US (0.18%) and OECD (0.11%).^{ix}

Our standard of living has been declining over the past several decades. In 1995, Canada was ranked 4th in the OECD for standard of living; by 2005 we were 7th.^x Compared to the United States, Canadians' standard of living is lower than a decade ago.^{xi} Canadian incomes have fallen significantly as a percentage of US incomes since 1980.^{xii} In health-related performance measures, Canada went from 8th in 2004 to 10th in 2005.^{xiii} Canada remains a mid-level performer in health care spending despite escalating health care budgets. Total health care spending per person has dropped from 3rd to 4th. In the society-based performance measures Canada is ranked 11th.^{xiv} Our poorest showing is in the level of child poverty. Crime rates, specifically homicides, while declining are still higher than most top performing countries.

The benefits realized through improved productivity go beyond improved standard of living. Higher productivity leads to increased tax revenues, which support on-going and highly valued social programs, improved health and education systems and more choices for meeting the increasing needs of the citizens of Canada.^{xv}

On the Shoulders of SMEs

SMEs are recognized by the OECD as being a critical driver of economic growth and the source of most new jobs.^{xvi} **The foundation of Canada's economy is small and medium sized enterprises (SMEs). They are the key to Canada's economic growth and subsequent prosperity as a nation. SMEs make a significant and profound impact on Canada's economy and therefore will be the source of improvement needed to bring Canada back to a world class top performing nation.**^{xvii}

Statistics Canada defines SMES as companies employing less than 500 people. Firms with less than 100 employees are considered small businesses, while companies with 100 – 499 employees are classified as medium-sized companies.^{xviii} There are close to 1 million businesses in Canada, of which 99.7% are SMEs.^{xix} Most enterprises in Canada are in the small category (97.5%). More than half of the businesses in Canada have fewer than 5 employees. The majority of Canada's SME (75%) offer services, while the remaining 25% produce goods.

While extremely difficult to measure, the number of new SMEs has remained fairly stable over the past 15 years, ranging from 135,000 – 146,000/year.^{xx} Annual exits of business range from 130,000 – 143,000. On average, there is an annual net entry of SMEs of about 8800.^{xxi} SMEs make a significant contribution to productivity growth through the dynamic process of displacement wherein small new firms replace low-productivity incumbents who exit.^{xxii} **The majority of SMEs do not stay in business for very long.** An SME in Canada has a 46% chance of staying business after 3 years. After 10 years, only 23% of SMEs are still operating.^{xxiii} In general, **Canada appears to be good at starting businesses, but not as effective in sustaining and growing enterprises.**

SMEs play a significant role in employment and job creation. In 2005, SMEs employed just over 6.7 million people, which represents 64% of private sector employment.^{xxiv} In the 10 year period 1995 – 2005, SMEs led job creation in 1995-1997, 2000-2003. Large businesses were responsible for job creation in 1998 1999, 2004 and 2005. Over the period 1993 – 2003, new firms were responsible for about half of the new jobs created in Canada. Despite the poor overall survival rate of SMEs, SME growth firms (companies in business for more than 10 years) have a profound impact on job creation. SMEs that survived over a period of 10 years, from 1993 to 2003, created just over one million net new jobs, while large firms produced a net loss of 44,037 jobs in the same period.^{xxv}

The contribution of SMEs to national GDP is a difficult statistic to calculate. Only British Columbia reports GDP statistics based on firm size. The British Columbia definition of small business is limited to businesses with fewer than 50 employees. In 2004, small firms (< 50 employees) contributed 22% (\$284 billion^{xxvi}) of the total Canadian GDP.^{xxvii} Another estimate, however not validated, puts SMEs at 45% of Canadian GDP.^{xxviii}

With a relatively small domestic market, Canada is an exporting nation. Exporting has accounted for more than 40% of GDP in recent years.^{xxix} Almost 85% of Canada's exporters are SMEs, who were responsible for 35% of the total value in exports in 2002.^{xxx} While only a small proportion of Canada's SMEs actually export (28.4%), they reach a greater diversity of export markets than large businesses.^{xxxi}

Given the contribution that SMEs make to Canada's economy in terms of employment, job creation, contribution to GDP and exporting and the sheer domination of the economy in terms of numbers, **improvements in overall performance and survival of SMEs would have a significant impact on Canada's economic and social well being.** While SMEs face daunting challenges in many aspects of business, **one critical success factor that has been shown to have a substantial impact on the growth and sustainability of SMEs is their capacity and ability to innovate.**

While the complexity of measuring innovation continues to be an evolving area of research,^{xxxii} studies have shown that innovation promotes increased productivity, faster economic growth and an improved standard of living in countries actively engaged in it.^{xxxiii} Various studies have confirmed that the relationships between innovation, growth, competitiveness, and profitability are too significant to ignore.^{xxxiv} High growth organizations consistently show success at innovation. Innovative organizations consistently outperform their competitors in growth, product quality, employee retention, customer satisfaction, morale and increased sales^{xxxv}. Based on composite measures of marketshare and growth, production and profitability, innovators perform better than non-innovators.^{xxxvi} They excel at marketshare and return on investment. Creating a capacity for innovation brings new value to a company in the form of cost reductions, revenue gains, internal efficiencies, expanded marketshare, new market entry, new and improved products and services, and job creation. Innovation helps organizations expand into foreign markets and increase business in domestic markets.^{xxxvii} Innovative organizations realize more than direct benefits from being innovative. They expand their knowledge and identify opportunities for future growth. Through the process of innovation, organizations build internal competencies and develop knowledge, expertise, skills, experience, systems, and processes. They acquire strategic advantages. **Innovative organizations are simply more successful.**

In order to realize all of the benefits and to effectively manage the risks of innovation, an organization must build an overarching strategy of always seeking out and trying new ideas. Building an innovative organization depends on understanding the value and benefits of innovation; knowing what distinguishes innovators from non-innovators and applying/implementing the critical success factors for building an innovate organization.

Statistics Canada has found that innovation strategies are evident in only a small percentage of Canadian SMEs.^{xxxviii} Canada's SMEs need to become "innovative organizations" in that they **apply new ideas in a way that produces new value for the organization. New ideas do not mean "new to the world". New ideas mean "new to the organization"**: whether it involves incremental improvement or radical breakthrough, whether the value comes through cost reduction or revenue gains, whether the result is internal efficiencies, expanded market share, entry into new markets, introduction of new products and services or improvements to existing offerings".^{xxxix} It does not matter whether Canada's SMEs are currently innovative or not, or are more innovative than large businesses. **All that matters is that more Canadian SMEs must be more innovative than they already are:**

"The heart of the challenge, however, is not so much how to innovate, but rather how to build innovative organizations – organizations capable of generating a constant stream of innovations that will increase profitability and growth over time."^{xl}

Putting Innovation Within Grasp

Recent research in Canada suggests that one of **the greatest barriers to innovation in SMEs is their “inability to grasp opportunities for innovation”**.^{xli} After decades of research, there is still no definitive checklist for successful innovation.^{xlii} We can however, look for commonalities among the various studies and synthesize a framework for building a capacity for innovation in SMEs. This is not an exhaustive or comprehensive analysis, but sufficient to provide an overview of the key competencies needed to build the ability to grasp opportunities for innovation.

Knowledge

Canadian SMEs could be described as being *underknowledge*d. Currently, the infrastructure needed to link SMEs with sources of knowledge and expertise is inadequate.^{xliii}

If there is one common feature that defines successful innovation, it is the acquisition and application of knowledge. **Knowledge is becoming increasingly important for competitiveness and pivotal in gaining strategic advantage.** The overall message is clear: “knowledge matters – not to mention the ability of use knowledge”.^{xliv} Knowledge drives innovation. It is both an input to and an output of the process. Knowledge is a pre-requisite for innovation. Organizations that want to build a capacity for innovation must have a strong and effective knowledge strategy. Knowledge management is a critical challenge to creating an organization with an on-going capacity for innovation.^{xlv} Accessing and capturing appropriate and relevant information and sharing it effectively and efficiently within the organization is a daunting task for most SMEs.

Culture and Climate

Innovative organizations create the necessary culture and climate for innovation to thrive throughout the organization. Innovation requires a culture of risk-taking. Building an organization that focuses on innovation demands an acute awareness of the potential risks involved.^{xlvi} Organizations need to develop and follow processes to ensure that risk is minimized. A formal decision making process is necessary for setting boundaries that balance the often unpredictable nature of the innovation process. This is especially important when developing or adopting radical innovations that involve high costs and high risk. Risk-taking needs to be managed through access to relevant information, comprehensive analysis, informed decision-making, appropriate resourcing, and the ability to leverage expertise quickly. Organizations striving to achieve a sustainable innovation capacity realize that ideas are the mainstream of innovation. They create an innovation process that recognizes both the fluid nature of idea development and the more rigid parameters of business.^{xlvii} Risk management strategies must be flexible enough to nurture fragile ideas through a process that is not linear or logical, provide enough time for an idea to reach its full potential, and yet be mindful of business realities.

Innovation does not happen without people. Organizations that operate under a corporate strategy of innovation live and die by their ability to attract, motivate and retain the right people. They hire for attitude and fit with the culture and train for skill in innovation.^{xlviii} Increasingly shortages in skilled labour are being reported as a barrier to growth in SMEs.

Almost 50% of businesses surveyed in 2003 reported that a shortage of qualified labour was one of the most important issues facing them.^{xlix} A 2006 CIBC World Markets study reported that “**chronic lack of skilled labour will become even more important in limiting the ability of the small business sector to grow to its full potential.**”^l The skilled labour shortage, it should be noted, is an international phenomenon also being experienced in the United States,^{li} Europe^{lii} and Asia (including both India and China).^{liii} There is growing concern over a perceived “lack of a direct connection between (1) the skills that are being developed through formal education, training and experiential learning, and (2) the skills that are actually required in the innovation processes where Canada is lacking.”^{liv}

Management

Management skills are a critical driver of the innovative capacity of an SME.^{lv} In a 2001 study, Industry Canada cited **the main reason for failure of SMEs as inexperienced management skills and that almost half of the firms in Canada that go bankrupt do so primarily because of their own deficiencies rather than externally generated problems.**^{lvi} SMEs rely on management as the source of their innovation to a greater extent than do large firms. The importance of management skills and competences in the small business sector can therefore not be underestimated.^{lvii} A 2006 literature review of management development in small firms confirmed the **need for specialized management programs for small firms in order for them to survive, grow, reduce the incidence of failure and improve performance.**^{lviii} The review also concluded that, while there is a growing body of literature on management for small firms, more research is needed.

Organizations committed to building a culture of innovation must develop critical leadership capacity throughout the organization. They need to invest in understanding the skill required to develop the kind of leadership necessary.^{lix} Leaders in innovation-focused organizations must have vision, be open-minded, flexible, entrepreneurial, risk tolerant, and committed to developing human capital. Organizations need to exhibit true leadership that can harness individual creativity to create synergies that result in sustainable growth of both people and the organization. Collaboration and co-operative alliances are important aspects of innovative leadership.^{lx}

Entrepreneurship has been broadly defined as “the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organization.”^{lxi} Two key components of entrepreneurship are: using business disciplines in a highly integrative way; and individual initiative in the context of uncertainty and tight resources.^{lxii} Productive entrepreneurship is now one of the main drivers of economic growth.^{lxiii} Canada remains one of the most dynamic G7 nations with 8.0% of its adult population engaged in entrepreneurial activities in 2003. Unfortunately, 2003 also marked the third consecutive year where entrepreneurial activities in Canada declined.^{lxiv} Using a national opinion survey of 1,664 adults and interviews with 36 experts, a 2003 report on Canadian entrepreneurship recommended that: **entrepreneurship education needs to be strengthened to increase the social acceptability and desirability of entrepreneurial activities; and management training programs for nascent entrepreneurs and managers of new firms should be expanded.**^{lxv}

Technological Innovation

The use of more advanced technology and business practices is a key driver of productivity and economic growth. Technological competencies: being successful at exploiting the opportunities of science and technology requires innovative behaviour^{lxxvi}. Technological innovation is widely under measured in the private sector, and few firms - even those that attempt to track innovation rigorously - are confident they're doing it right.^{lxxvii} **There are two distinct, yet important elements to technological innovation: research and development (R&D) and technological diffusion and adoption.** The difference is subtle, yet profound and significantly influences the behaviour of SMEs

Much of the focus on increasing productivity in Canada has been on our R&D performance. Federal and provincial governments have increased total spending on science and technology by almost 40% in real terms since 1994, allocating almost \$9 billion in 2003 (around 0.7% of GDP).^{lxxviii} R&D is an important element of the innovation process, where new knowledge is generated that could eventually lead to new products and processes. R&D stimulates national focus on science and technology, which encourages students to pursue academic studies in science and technology, which results in increased levels of corporate R&D, which in turn leads to more job opportunities and therefore, an even greater national focus on R&D.^{lxxix} While R&D is an important element, however, it is only part of the innovation process.

In a Canadian context, there are several reasons why there must be more to innovation than R&D. Canada's contribution to the global pool of knowledge is minor. In 2003 it was less than 3% of total OECD R&D expenditures.^{lxxx} Very few SMEs in Canada do R&D and fewer conduct R&D on a continuous basis. In 2003, fewer than 12,000 SMEs conducted R&D.^{lxxxi} From 1994 to 2000, of the 25,161 companies that performed R&D, only 9.4% did research in all seven years, while 34% engaged in R&D activity in only one of the seven years.^{lxxxii}

Despite the increase funding in R&D over the past decade, the anticipated benefits and impacts have not been fully realized. Canada's record of commercializing the results of R&D has been disappointing. In its recent report to the Government of Canada, the Council of Canadian Academies found that while Canada was strong in the generation of new knowledge, there were clear weaknesses in translating that new knowledge into successful commercial products, processes and services.^{lxxxiii} The Alberta Research Council has identified one of the primary causes of technical innovation failure to be unsuccessful technology push.^{lxxxiv} Almost one third of the R&D without a specific market application ends not being used because there is no market pull-through.^{lxxxv}

The common belief that there is adequate infrastructure to transform Canada into a leading technologically innovative global economy has been strongly challenged as a myth.^{lxxxvi} The World Economic Forum ranked Canada 17th in technological readiness, 18th in business sophistication and 13th innovation.^{lxxxvii} In comparison to their European counterparts, Canadian SMEs struggle at bringing new products and services to market. Significantly more European firms (70%) than Canadian (40%) derive more than 25% of their revenues from the sale of new goods and services.^{lxxxviii} Few of Canada's SMEs have the capacity or capability to perform leading-edge R&D or the receptor capacity to commercialize advanced new products and processes.

In fact, the success and growth of SMEs depends more on the diffusion and adoption of new innovations (advanced technology and business practices) than on R&D.^{lxxxix} The greatest improvements in productivity and growth are more likely to be realized from the acquisition and implementation of best practice innovations (technology and business practices) for solving a company specific problem than from R&D and new product development. Due to the number of SMEs that would benefit, the collective impact of increased diffusion and adoption of new innovations on productivity, growth and survival would be substantial.

Firm size is a deciding factor in the acquisition of new technology and business practices and subsequent training related to the acquisition.^{lxxx} Various studies have shown that Canadian SMEs are slower at adopting new innovations than large companies, are less likely to adopt new innovations than their US counterparts, and use new innovations with less sophistication.^{lxxxii, lxxxiii} The level of sophistication and capability of many SMEs in technological innovation is likely limited to the adoption of best practice technologies such as information communication technologies or common manufacturing practices such as lean strategies that address firm-specific, problem-based solutions. The goal is to make individual SMEs more innovative than they are currently – to increase their individual capability to grasp opportunities for innovation. This means that much of the technological innovation in SMEs will be driven by specific challenges faced by an individual company. Many of those challenges can be solved by adopting or acquiring existing best practice technical or business solutions. Greater improvements in productivity will be realized through the diffusion and adoption of advanced technology and business practice, rather than through R&D.

Collective Impact: Greater than the sum of the individual parts

Building the foundation and capacity for an innovative culture among Canada's SMEs is the critical task at hand. **All strategies for innovation need to be supported: organizational, technical, financial, and managerial.** A major element differentiating successful from unsuccessful innovators, where all technological factors have been similar, has been identified repeatedly as poor business performance – the inability to innovate in managing the firm.^{lxxxiii} Research also shows that non-technological innovations do matter for the success of firms.^{lxxxiv} Successful innovative firms “actively bring together customers, suppliers and research partners to develop new and improved products and services; use more formalized business processes and practices when gathering new ideas and identifying new opportunities; use formalized business processes *and* intuition in making executive decisions; integrate customers into the firm's decision-making processes; and look to global markets for exports and ideas.”^{lxxxv}

Innovation is defined as **applying new ideas in a way that produces new value for the organization. New ideas do not mean “new to the world”. New ideas mean “new to the organization”:** whether it involves incremental improvement or radical breakthrough, whether the value comes through cost reduction or revenue gains, whether the result is internal efficiencies, expanded market share, entry into new markets, introduction of new products and services or improvements to existing offerings”.^{lxxxvi} Where one SME may achieve the greatest improvements in creating new value for the organization by developing and commercializing a breakthrough drug, another might maximize new value by implementing a new marketing strategy such as a web site. The desired outcome is greater innovation capacity and organization performance. The innovation strategy is not important; the implementation and execution of the strategy is. Whether an SME chooses a technological innovation

strategy, a marketing innovation strategy or a human resources innovation strategy, the goal is to increase the likelihood that they will recognize the importance of having an innovation strategy, that they have the capability to implement it successfully, and that they will continue to seek out opportunities for innovation. The collective impact will be significant.

On-going and expanded support for SMEs to build the capacity and ability to grasp the opportunities for innovation will reap benefits beyond the commercial success of enterprises. Improving the productivity of SMEs will lead to those outcomes and impacts most valued by Canadians: job creation, prosperity, and quality of life.

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