



ESTONIAN BUSINESS
SCHOOL

Innovation management challenges in Estonian enterprises

Tiit Elenurm
Estonian Business School
Head of the Entrepreneurship Department
tiit.elenurm@ebs.ee

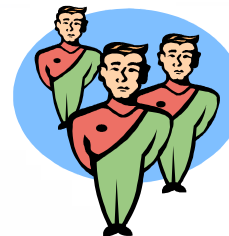
- To understand the focus of SME innovative activities, obstacles in the innovation process and innovation performance management principles in Estonian enterprises by applying the Henley SME innovation study questionnaire.

Four departure points:

- The “Northern Star” scenario assumes that innovation supporting policies on state and regional level will match the ability of Estonian enterprises to change
- Tidd *et al.* define innovation as a process of turning opportunity into new ideas and of putting these ideas broadly into practice.
- Innovative role of entrepreneurs in the Schumpeterian sense is in transition economies often restricted by limited capital base.
They can still choose to apply a more short-term opportunist strategy.

3 entrepreneurial orientations

☐ Imitative orientation



☐ Individual innovative orientation



☐ Co-creative orientation



Self-analysis of entrepreneurial orientations is a crucial departure point for entrepreneurship education at the Estonian Business School

- We applied the survey tool developed by George Tovstiga and David Birchall at the Henley Management College in order to compare innovative activity priorities in Estonian enterprises with enterprises that operate in more advanced and stable market economies of the “old” Europe.
- A conceptual basis of the survey is Henley-Incubator’s innovation ecosystem framework that addresses innovation performance measurement in five broad areas: innovation climate, strategic filtering of innovative ideas, innovation project management, team effectiveness, innovation portfolio measurement and valuation

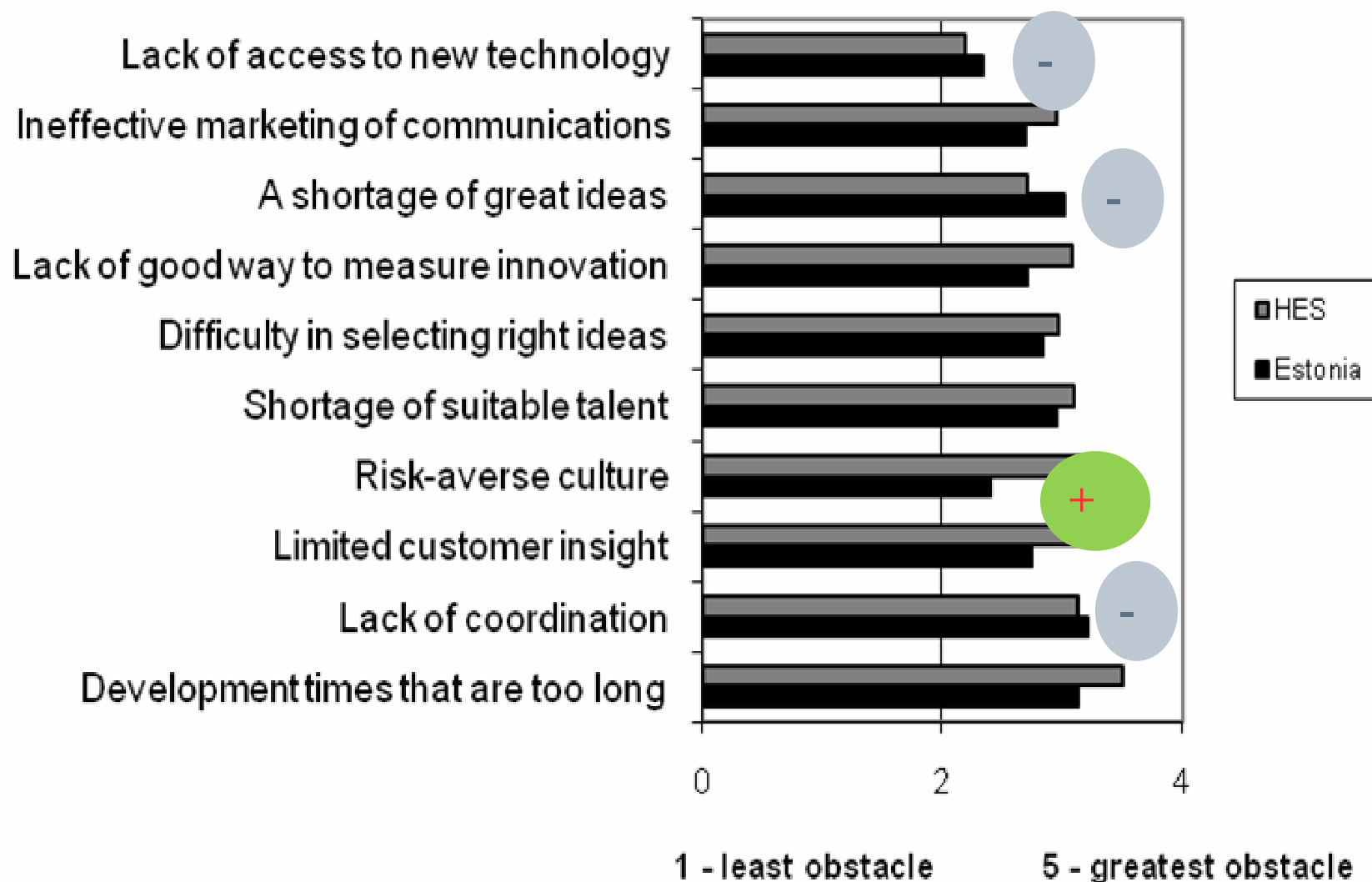
- The Estonian sample consisted of 102 enterprises from retailing, processing industry, financial services and some other business sectors. A total of 24.5% of enterprises in the Estonian sample had more than 250 employees. 18.6% of enterprises were medium-sized with 50 – 249 employees and 56.9% were small enterprises with less than 50 employees.
- Estonian survey was conducted at the end of 2007 and during first months of 2008.
- I present some comparisons with the Henley Management School 2007 survey that involved 156 enterprises (HES sample).

Differences between Estonian business sectors

- Most positive approach to innovation among respondents **in financial services**. 56% of respondents in this business sector considered the contribution of innovation to the business profitability of their organizations in 2007 very high or high.
- The number of respondents satisfied with the financial return on their investment in innovation was the highest among **production companies** (13.3%) and was a bit lower in financial services (11.1%) and the retail sector (9.1%).
- The largest share of enterprises that rated reducing product/service costs as extremely important was found among **retailers** – 63.6%.

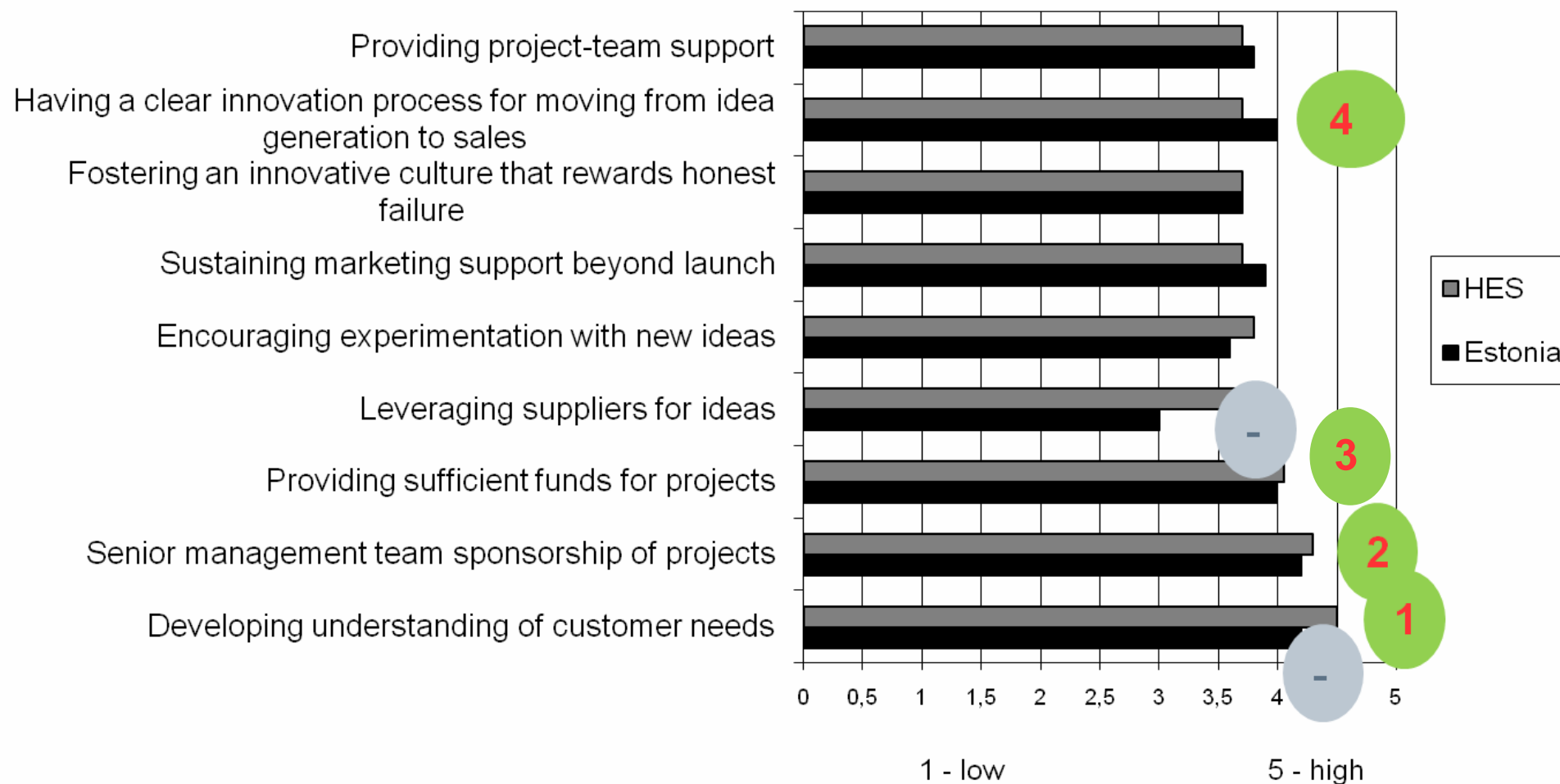
Obstacles to innovation in HES and Estonian samples

Obstacles to innovation



Innovation performance management – comparing HES and Estonian samples

Innovation performance management - How important is the following to your company's innovation effort?



- High contribution of innovation to business profitability in 2007 **correlated positively** with innovation focus on new services offerings for existing customers ($r=0.246$, $\text{Sig}=0.013$), product/service offerings for overseas markets ($r=0.238$, $\text{Sig}=0.016$) and information technology development ($r=0.280$, $\text{Sig}=0.004$)
....and **negatively** with innovation obstacles: shortage of great ideas ($r=-0.306$, $\text{Sig}=0.002$) and talents ($r=-0.213$, $\text{Sig}=0.032$).
- Innovating by offering new products and services that had positive correlations with high profitability contribution of innovation in 2007 **did not have significant positive correlations** with a profitability increase anticipated for the next 5 years.

- The survey highlighted a positive innovation outlook among Estonian managers, especially in the service sector, which is in line with the results of the EU Community Innovation Survey.
- Long-term profitability visions of enterprises for the next five years are not based on a systematic approach to managing the risks in the innovation project portfolio, supporting post-launch marketing activities and measuring results of innovation performance.
- Clustering with innovative enterprises from neighbouring Nordic countries but also networking with entrepreneurs from present and potential EU member countries in South-East Europe could enhance knowledge flows for developing and implementing innovative strategies.