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**INNOVATION IN
MID-MARKET FIRMS**

The Executive Report
on an Interview Study
of 35 Australian Firms





This report is the outcome of the first phase of a major three year research project (2014-2017) examining innovation in Australian mid-market firms. The research is funded by the Australian Government through the Australian Research Council, GE Capital, & UNSW-Australia. AGSM has organised managerial networking events and provided logistic support for the project.

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Executive Summary

1. INNOVATION OUTCOMES

Australian mid-market firms are adept at using multiple types of innovation. As they grow beyond the core of their businesses, which typically is an innovative product or service, they expand into other areas including process innovation. However, relatively few mid-market firms use marketing innovations or organisational innovations. We identify some unique low-cost innovations that mid-market firms are using and suggest these could be an area of opportunity because competitive advantage can be gained through undertaking a wide range of innovations.

2. INNOVATION PROCESSES

Leaders of mid-market firms conduct various activities, including monitor, drive, create a culture, listen, generate, search, collaborate, develop vision, communicate, and filter, to manage the innovation process. These leadership activities indicate that managers play a crucial role in coming up with innovations as well as implementing innovations. However, these activities could be conflicting at times and can pull managers in opposite directions. Leaders in mid-market firms resolve this problem by conducting conflicting activities at different stages, in different domains, and through different personnel. They appear to be adept at balancing the paradox and find a both/and solution rather than an either/or solution.

3. INNOVATION CHALLENGES OF MID-MARKET FIRMS

Australian mid-market firms are experiencing several challenges on innovation management predominantly related to: people, money, time, and technology. Midmarket firms cannot pay staff as much as large firms and there are less promotion opportunities, which makes it hard to find creative staff. Firms need funds to invest in further technology, people, machinery, and acquisitions to generate creative ideas and implement innovation. Leaders and staff are busy working on the day-to-day details

of the business, which makes it hard to find time to generate ideas, choose which ideas to implement, and drive the implementation. Technological capabilities keep on increasing, but it is hard to know which technology to invest in and whether it is worth the expense.

4. TACKLING THE NEXT FRONTIER

Mid-market firms are more agile than large firms and more resourceful than small firms to pursue innovation. Several actionable ideas to manage innovation are suggested for mid-market firms. Since leaders are driving innovation in mid-market firms, investing in improved leader cognition (e.g., clear mental models and decision making) should assist innovation. Investment in people should focus on how new employees can bring new ideas to a firm rather than just fitting in. Investment in collaboration should focus on how good ideas can readily come from other companies and industries. Investment in technology should focus on how to use technology to improve existing products and service with the ultimate aim to serve customers better.



5. PROJECT GOAL

This project has achieved its aim of gaining solid background knowledge for a three year mid-market project in Australia. In the next research studies, we will explore in more detail some issues identified in this study, such as the importance of leader cognition, resource choices, and decision making.

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The fundamental question is “*how do mid-market firms innovate?*” We examine the processes of innovation as well as the outcomes of innovation. We also examine the challenges facing mid-market firms.

Our hope is that by learning about these issues we can assess the innovation capabilities of, and provide guidance to, mid-market firms. By implementing some of the suggestions highlighted in this report, mid-market firms may improve performance and thrive in an increasingly competitive global environment.

Innovation capability is critical to business performance. In this study, innovations are the processes, outcomes, and products of attempts to develop and introduce new and improved ways of doing things at work. Innovation should be understood as a process and as an outcome. Innovation as a process is the “*how*” of innovation and innovation as an outcome is the “*what*” of innovation. While both are important, there is little empirical evidence on the processes that lead to innovation. Well-designed and well-managed processes, however, precede outcomes. Leaders therefore have scant evidence-based guidance on effective ways to conduct innovation processes.

The Australian mid-market sector refers to medium size firms wedged between small and large firms. This sector roughly refers to firms with revenue between AUD\$10 million and \$250 million. The mid-market contributes \$435 billion annually to the Australian economy, and is represented by 27,500 firms across all industries in 2014 (GE Capital Mid-Market Report, 2014).

More information about the Australian Mid-Market sector, including the annual GE Capital Mid-Market CFO Business Growth Outlook Index, can be found on www.gecapital.com.au/mid-market.html



FINDINGS ON INNOVATION OUTCOMES

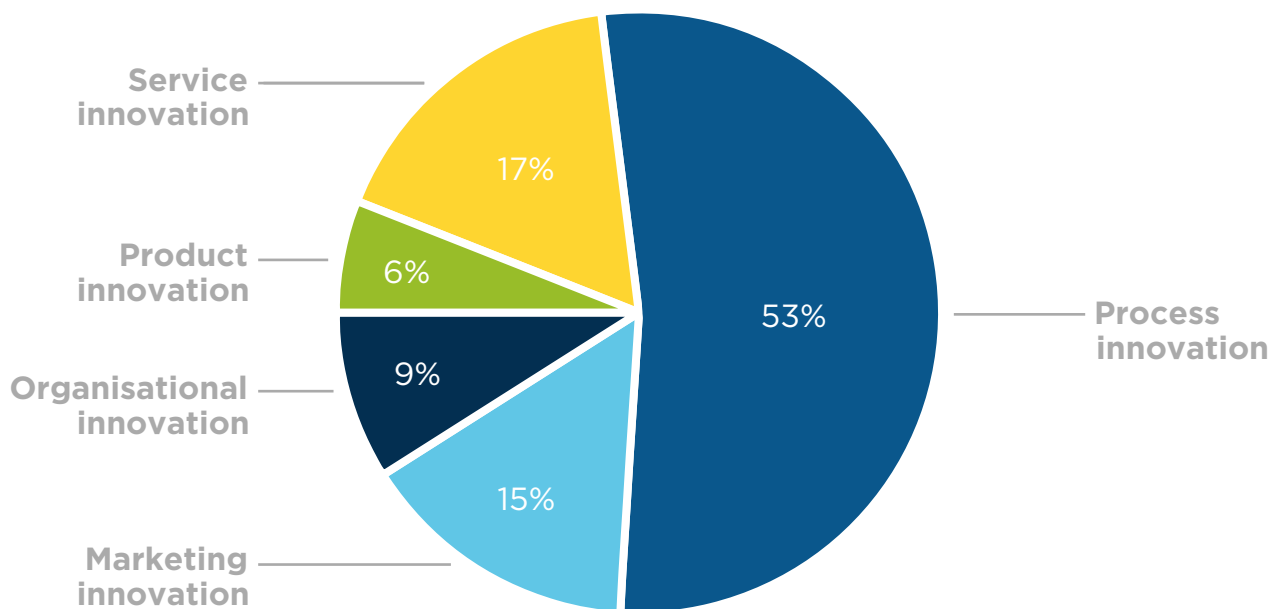
Five types of innovation outcomes are identified in Australian mid-market firms based on the classification of the Community

Innovation Survey, which is a widely used survey on innovation across many countries. Below is a table that defines each of the innovation outcomes and some examples we found in Australian mid-market firms.

EXHIBIT 1: Definition and examples of each innovation outcome

| Innovation Outcome | Definition | Examples from Australian Mid-Market Firms |
|--|---|---|
| Product Innovation  | The market introduction of a new or significantly improved good with respect to its capabilities, user friendliness, components, or sub-systems | <ul style="list-style-type: none"> • Removing unnecessary features in a product to make it cheaper but still usable to customers. • Increasing the environmental benefits of products • Integrating more IT capabilities into products |
| Service Innovation  | The market introduction of a new or significantly improved service with respect to its capabilities, user friendliness, components, or sub-systems | <ul style="list-style-type: none"> • Online store with telephone number on website front page to provide quick customer service • Using cloud computing, where clients upload their data into the cloud, so firms can give up-to-date advice to clients • Can have any consumable products delivered regularly at any customer-designed schedule |
| Process Innovation  | The implementation of a new or significantly improved production process, distribution method, or supporting activity | <ul style="list-style-type: none"> • Building machinery with a mould that can produce 4 rather than 2 units, so can output twice as many in the same time • Basing advice on analysis of meta-data rather than opinions • Communicating financial data to all staff |
| Marketing Innovation  | The implementation of a new marketing concept or strategy that differs significantly from your enterprise's existing marketing methods and which has not been used before | <ul style="list-style-type: none"> • Sending clients relevant news and research articles rather than just product/service marketing • Creating a community around the brand with active social media participation and online capabilities • Prioritise and de-prioritise customers based on their value to the company rather than marketing equally to everyone (e.g., more senior staff to engage with top potential customers) |
| Organisational Innovation  | A new organisational method in your enterprise's business practices (including knowledge management), workplace organisation or external relations that has not been previously used by your enterprise | <ul style="list-style-type: none"> • Building a distribution centre near the Australian Post hub in order to deliver products to customers quickly. • Having people in different teams sit near each other to facilitate communication • Hiring people with their next job (i.e., promotion) in mind, so a long term commitment |

EXHIBIT 2: What Mid-Market innovation leaders say they are doing



Note: Percentage relates the number of times this type of innovation outcome was mentioned in the interviews

COMMENTS ON INNOVATION OUTCOMES

Mid-market firms are often built upon product or service innovation to enter a core niche. Then they continue to build their advantage in the niche or extend beyond their niche through other types of innovations. Marketing and organisational innovations appear to be important for some mid-market firms, but many appear to prioritise innovations related to their primary focus (product innovation (6%) or service innovation (17%)) and then process innovations (53%). The book *Ten Types of Innovation* by Larry Keeley and colleagues suggests that the greater the number of different types of innovation, the greater the firm's advantage because this makes it difficult for competitors to copy their business practices, and therefore secures market position. Reassuringly, many mid-market firms appear to be implementing multiple types of innovation.

The innovation outcome that came up less during the interviews was marketing innovation (15%). We were surprised by this finding because we thought mid-market firms experience intense competition from larger and smaller firms. Given the constraints mid-market firms face, we expected they would instead emphasise marketing innovation. This could be an area that firms could expand into to increase their differing types of innovation which should lead to enhanced performance. Organisational innovation (9%) was less frequent as well, but this is perhaps more expected because mid-market firms are generally more flexible and have less hierarchy (and fewer procedures). Thus, organisational innovation such as reorganisation is less frequent. However, procedural innovation is an area of potential benefit that leaders could investigate.

Many mid-market firms appear to be implementing innovations that require less financial commitment, what we call low-cost innovation or frugal innovation. An example of a low-cost product innovation is

reducing the features of existing products and selling them at a lower price point. This requires some examination of what are the essential and non-essential features of the product and then releasing a "minimum viable product" to market to discern if this product would be valued by customers. An example of a low-cost service innovation is, instead of removing comments by complaining customers from the company's Facebook page, using it as an opportunity to publically engage with the customer, thus showing them and other customers the quality of customer service. An example low-cost process innovation is communicating financial data to all staff rather than just the top staff to improve the sense that all staff are important members of the firm, which may increase engagement and innovative thinking. An example of low-cost marketing innovation is sending clients recent media and research articles related to the area rather than just marketing services and products. An example of low-cost organisational innovation is switching on all the television screens in the office when there is a big event, to facilitate staff morale and engagement.

Mid-market firms did not appear to have any major differences in innovation processes or outcomes based on demographic differences. Although the 35 firms we interviewed came from a range of different backgrounds, we found few important differences. In terms of size, 19 firms were in the \$50 million and over annual turnover bracket, 11 firms were in the \$20-50 million annual turnover bracket, and 5 firms were in the \$10-20 million annual turnover bracket. In terms of ownership, 13 firms were driven by the original founder, 13 firms were private companies, and 9 firms were public companies. The sample were spread across a range of Australia and New Zealand Standard Industrial Classifications (ANZSIC): 6 were from manufacturing, 6 were from wholesale trade, 5 were from property and business services, 4 were from retail trade, and other were spread across different industries.

2. Innovation Processes

FINDINGS ON INNOVATION PROCESSES

Managing the innovation process means providing ways to generate and implement new ideas in a firm. The interviews show that managers of mid-market firms focus on

conducting a diverse set of activities to direct the innovation process. There is sometimes a paradox because of the need to conduct different activities simultaneously, but firms appear to accept the paradox and manage the process. Exhibit 3 presents these activities.



EXHIBIT 3: Definition and examples of each innovation process. While not exact, these activities are in an approximate order of processes undertaken.

| Managerial activity | Definition | Examples from Australian mid-market firms |
|--|--|---|
| Monitor  | Tracking progress of new projects and obtaining feedback from internal and external stakeholder | <ul style="list-style-type: none"> • Keeping innovation budget • Transparency in the progress of new project |
| Drive  | Overseeing the implementation of innovation projects | <ul style="list-style-type: none"> • Being the main person thinking through what needs to be done and organising the appropriate people to conduct the necessary tasks to get the job done |
| Create a culture  | Building a culture of innovation that encourages all members to contribute ideas | <ul style="list-style-type: none"> • Leaders who encourage staff to give ideas, hiring innovative people, and creating an office environment conducive of innovative ideas |
| Listen  | Listening to ideas from staff, customers, suppliers, etc | <ul style="list-style-type: none"> • Asking suppliers how the company can help them • Systematically sourcing ideas from employees through regular brainstorming activities |
| Generate  | Coming up with innovative ideas themselves | <ul style="list-style-type: none"> • A leader comes up with an idea for how to automate a process to reduce labor costs |
| Search  | Searching for ideas from elsewhere including competitors, academic research, market research, overseas, and other industries | <ul style="list-style-type: none"> • Leaders who spend time networking, visiting comparable companies overseas, going to trade shows, reading academic and practitioner articles |
| Collaborate  | Working with external partners to achieve outcomes. Could also include networking ideas with other businesses. | <ul style="list-style-type: none"> • Facilitating relationships with partner organisations to see if there is synergy to create new products or services or improve internal processes |
| Develop vision  | Determining an overall strategy for the firm | <ul style="list-style-type: none"> • Leaders who have worked out where they want the company to be in the short, medium, and long term and practical steps how they will get there |
| Communicate  | Maintaining clear communication among staff. Also includes assisting the lines of communication between staff. | <ul style="list-style-type: none"> • Writing strategy of the company in 35 words or less to make it simple to communicate to staff |
| Filter  | Deciding which innovative ideas to implement. Also deciding when to modify or let go of an innovation if it has not worked. | <ul style="list-style-type: none"> • In the search process, many innovative ideas are generated, and a manager decides which ones are likely to generate the best return on investment |

COMMENTS ON INNOVATION PROCESSES

Leaders of mid-market firms undertake a diverse set of activities to direct the innovation processes. These activities frequently create tension by pulling managers in different directions. For example, how much effort to invest in innovation versus running the business and how much innovation to internally develop versus imitate (or buy) were frequently mentioned challenges. Some have called such conflict-ridden choices a paradox. It is not surprising that academic researchers and business consultants often have different and conflicting advice on the best processes to manage innovation.

Our interviews show that leaders resolve the tension of various activities by learning to manage ambidexterity. This could be achieved through three ways: conducting conflicting activities in different domains, different times, and through different personnel. This facilitates a both/and approach rather than an either/or decision. For example:

1. Leaders **drive** their vision through the company but also **listen** to staff. **Driving** (a top-down process) and **listening** (a bottom-up process) are conducted in different domains. Innovative firms appear to have the overall strategy determined by the leader or leadership team, which is then **communicated** to build support for their **vision**. The top-down innovation is on the strategic level. The bottom-up innovation where employees in specific roles come up with details of innovation relevant to their own particular expertise is on the operational level. Operational-level innovations are useful in helping to achieve strategic-level innovation. For example, a leader might **develop vision** for a timber mill, but an employee might show innovation by making machinery more effective. Here, employees are better at this bottom-up



innovation than the leader because they are directly dealing with the machinery every day. Our research suggests that leaders can improve the innovativeness of the firm through **listening** to employees' ideas and **creating a culture of innovation**.

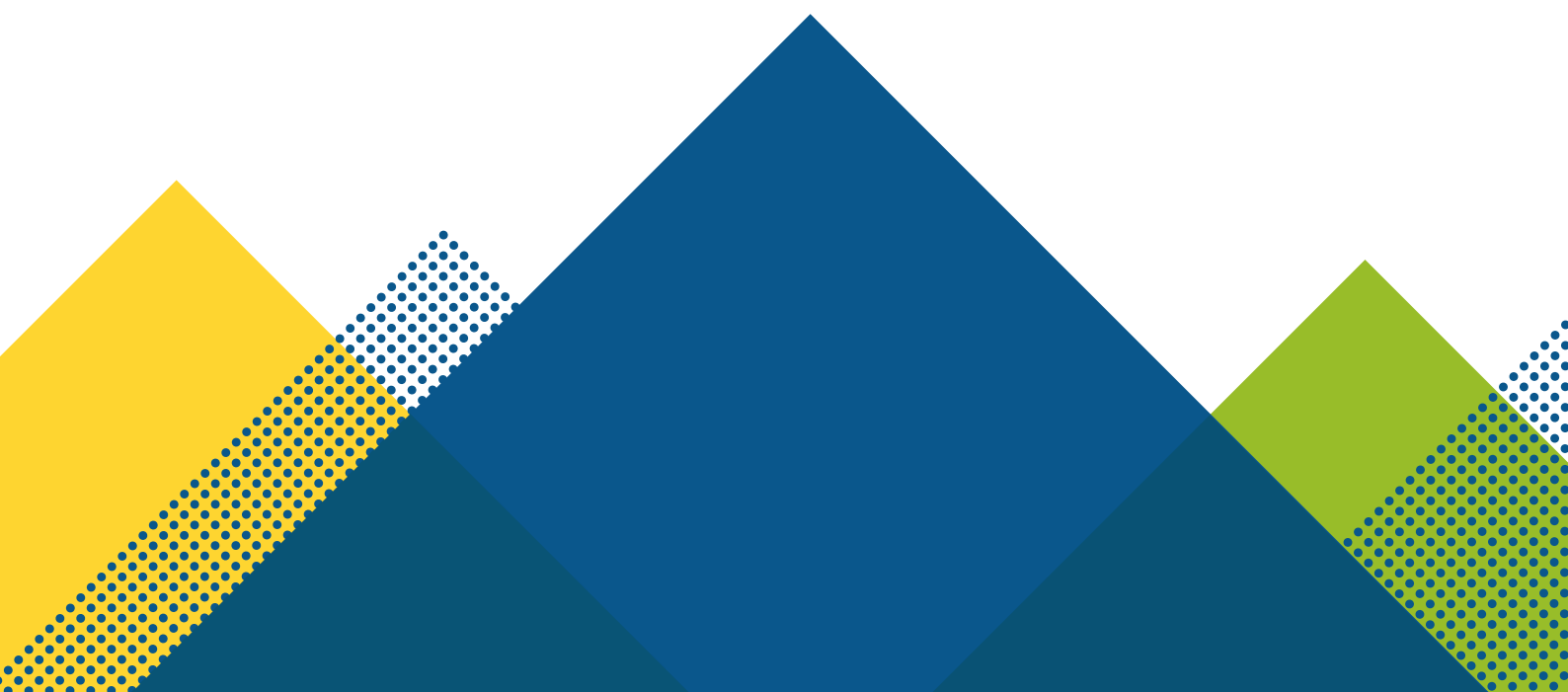
2. Innovative mid-market managers have an attitude that "innovation can come from anywhere". They ask staff to **generate** new ideas (a process of invention) but are also busy **searching** for ideas externally and **collaborate** with business partners (a process of adoption). They resolve the tension between invention and adoption through different timing. First stage is gaining ideas with the firm. If an idea is not able to be sourced internally, then the second stage is **searching** further afield for solutions to a problem. The **search** process includes the business media, books, the internet, attending seminars, attending networking events, hiring dinner and conference speakers from other industries, and traveling overseas to talk to relevant people.
3. Managers build both formal and informal systems into the innovation process. The innovative firms we interviewed were able to **create a culture** of innovation with open **communication** among staff (an informal process). At the same time,

they also **monitor** innovation projects closely with clearly defined performance metrics (a formal process). The tension created by formal and informal systems is resolved by different personnel. Leaders often present themselves as generally open minded and improvisational. Operational or financial managers, on the other hand, design and implement the formal tracking system. In this way, leaders maintain a clear and consistent identity as innovation champions of the company.

The whole company interacts closely to make innovation work. In most of the midmarket firms we interviewed, the relationships among the staff are intimate and close. The firms have a community feel where everyone has a sense of belonging and responsibility for the firm. Staff therefore are more willing to assist in coming up with innovative ideas as well as assist in the implementation of innovation. Everyone in a

mid-market firm takes responsibility to get tasks done, whereas in a larger firm people sometimes have an attitude of “it’s not my problem”. We observed that mid-market leaders recognized the critical importance of overseeing the innovation culture – and take action to manage it.

These results show that leaders of mid-market firms do the heavy lifting on innovation. Leaders generate ideas themselves, develop vision, drive the implementation of the innovation, and communicate their strategy. Leaders also listen to staff, search for ideas, and create a culture of innovation. This is quite different from large firms, where the role of the leader seems to be downplayed recently. For example, Clayton Christenson in *The Innovator’s Dilemma* highlights the role of middle managers in innovation. But in midmarket firms (with fewer layers of management) leaders appears to be crucial. Midmarket leaders appear to be similar to information processors where they are generating ideas and filtering the ideas of others.



3. Innovation Challenges of Mid-Market Firms 10

FINDINGS ON CHALLENGES

Participants revealed several challenges experienced by mid-market firms.

Exhibit 4 presents some of the most frequently cited challenges.

Note: Percentage refers to the percentage of firms who cited this innovation challenge as an issue

EXHIBIT 4: Definition and examples of each innovation challenges

| Challenge | Definition | % | Examples |
|---|---|-------|---|
|  <p>People</p> | Attracting and retaining high quality staff who are innovative and fit with (and add) to the firm culture | 85.7% | <ul style="list-style-type: none"> • Attracting people with management skills and not just job specific skills • Attracting experts in specialised areas • Attracting suitable candidates for regional or overseas positions |
|  <p>Money</p> | Having sufficient financial capital to fund current operations and future growth | 40.0% | <ul style="list-style-type: none"> • Sufficient money to invest in IT and equipment necessary to grow the business • Only so much money available in Australia • Some industries are in decline |
|  <p>Time</p> | Having sufficient time to devote to innovation when busy with day-to-day operational tasks. Mid-market firms often want their staff to do more. | 28.6% | <ul style="list-style-type: none"> • Time to think through innovative solutions to problems • Time to implement innovation when busy with day-to-day business • Time to read, talk to relevant people, look at overseas examples |
|  <p>Tech</p> | Taking advantages of new technology to serve customers better. | 28.6% | <ul style="list-style-type: none"> • Cloud computing to provide clients with real-time advice on their data • Big data analysis to provide meaningful advice rather than opinions • Automation of as many processes as possible |

COMMENTS ON CHALLENGES

The challenges mid-market firms face for innovation are unique and different from large and small firms. The most frequently cited challenge was the need to hire and retain good quality people (cited 30 times). Many firms also needed to ascertain innovative ways of gaining sufficient capital to sustain and grow their businesses (cited 14 times). Some firms also mentioned the problem of time to generate and implement innovation (cited 10 times), and keeping abreast of technology (cited 10 times).

The most cited challenge to innovation and future performance continues to be the problems of hiring and retaining good people. The common view is that it is difficult to hire good people because there are fewer advancement opportunities and often lower salaries in mid-market firms relative to large firms. Most firms identified hiring and retaining staff as a key barrier to innovation, particularly if they are seeking to grow in new interstate or overseas markets. A further issue is then whether to send existing employees to the new locations or whether to hire people already in location.



Tackling the people challenge:

Several firms identified ways in which they are dealing with hiring and retention issues, such as Corporate Social Responsibility initiatives to make the firm attractive, making use of young ambitious people, use of social media, and headhunting for the very best staff even if the probability of employment is low.

Many mid-market leaders also noted that they had issues with insufficient funding, or at least that more innovation would be possible with more capital. They could invest in more staff and employ staff with specialist skills with more funds, which would increase the pool of innovative ideas. They could also invest

in machinery that would increase output and streamline processes. Funds could be used for more data analysis to know which areas in which to focus their innovative thinking. Further IT capabilities would open up a range of innovative possibilities that would allow staff more options.



Tackling the money challenge:

Some firms were overcoming this challenge through going overseas for funding. One mid-market firm noted there is more availability for funding in the mid-market space overseas. Firms also asked for longer payments to suppliers to overcome funding issues (and showed them orders that had arrived to prove they were able to pay).

Some leaders commented on the issue of having insufficient time to both generate ideas themselves and gain ideas from staff, as well as the issue of having insufficient time to implement the innovations. An issue, therefore, is how to be more efficient with their time.



Tackling the time challenge:

Some firms decided to partner with external firms to “bolt on” expertise that they do not have rather than hiring or attempting to use internal resources. Other firms tried to increase the number of ideas generated through strategies such as an “Innovation Olympics”, in which staff compete to come up with the best ideas. This way management have a larger pool of initial ideas that can then be discussed and potentially implemented.

- This is also an area where leader cognition (how leaders think and make decisions) has a potential influence. For example, decision making on the priorities of management time

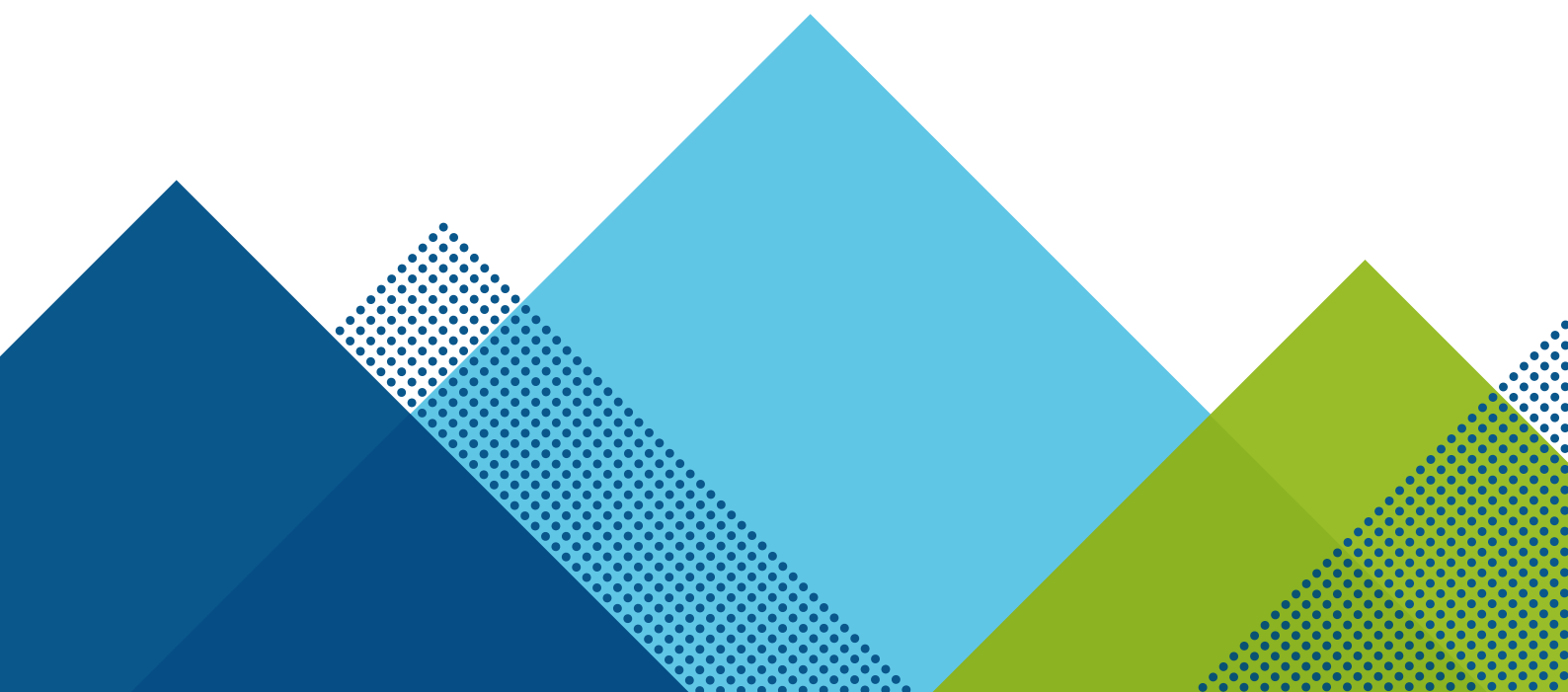
may need to be shifted. Leaders need to allow time to develop short-term, medium-term, and long-term goals. For example, one firm used the concept of the Big Hairy Audacious Goal (BHAG) from James Collins and Jerry Porras's book *Built to last: Successful habits of visionary companies*. This goal-setting approach aims to create innovations that may change the nature of a whole business.

Technology is ever-evolving and mid-market firms need to keep abreast of it to stay competitive. Recent advances in information technology and automation have provided opportunities for mid-market firms to innovate on new fronts (particularly on process innovation and marketing innovation) despite limited resources. Managers are overwhelmed with possibilities made available by new technology. They often worried that they have fallen behind the latest technologies and are unable to maximise the potential benefits promised by new technology.



Tackling the technology

challenges: innovative mid-market firms in this study do not join the technology frenzy. They always put customers first, and technology second. They focus on solving customer problems rather than pioneering new technology in the market. Technology is always a tool for them to improve service to customers. Moreover, mid-market firms could benefit from being a fast follower rather than a first mover because of their agility. To be a fast follower, mid-market leaders need to broaden information search, sharpen information processing, and increase speed of decision making skills. Finally, some firms have showed how they could serve customers better by low-cost innovation rather than high-end technology.

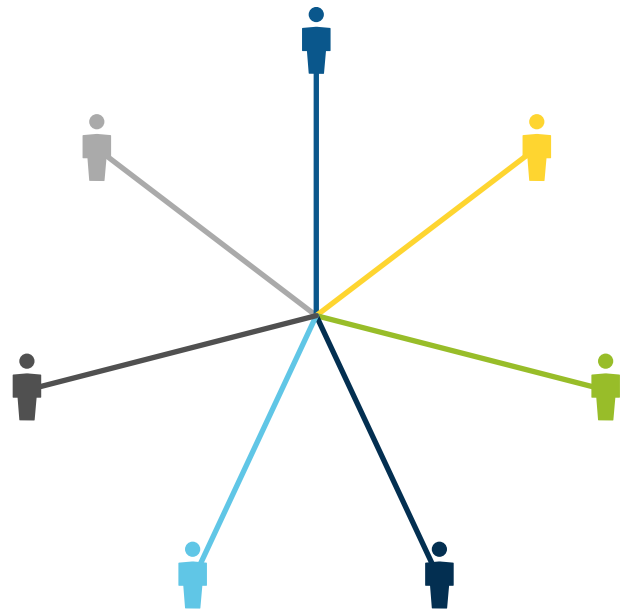


4. Tackling the Next Frontier: A Path Forward 13

There are several advantages to being a mid-market firm. A key advantage of midmarket firms is that they are more “nimble” and “agile” than large firms (our interviewees used these words regularly during the interviews). In other words, they have fewer decision-makers to go through to make a decision about whether to, and how to, implement a particular innovation. Moreover, due to a smaller market share compared to the large and established market of their larger counterparts, mid-market firms are more motivated by the likely gains of implementing an innovation, while large firms are more inclined to see the risks of implementing the innovation. They are therefore often more motivated than larger firms to pursue innovation. Another advantage is that the medium size breeds more of a community environment. People tend to care about what they are doing (invest themselves intrinsically in the work) and the people involved. This stimulates high levels of motivation in the employees that is frequently linked to higher organisational performance.

Based on the results of this study, we propose the following actions for mid-market firms to take advantage of their position in the market and to face challenges.

1. Invest in leader cognition and assure time for innovation. Our study suggests that leaders of mid-market firms play a key role in innovation. They generate ideas themselves, filter staff ideas, and create a culture of innovation. To maintain innovation capability, leaders should schedule time for innovation activity and networking into their routine. Firms could follow the practice of “blue sky” meetings where the top management team had meetings with nothing on the agenda except to discuss the big issues of the firm. Moreover, leaders need to learn to manage ambidexterity as innovation processes pull them into opposite directions. A first step to manage



ambidexterity is to recognise their own cognitive style, so that they understand how they snatch, filter, possess, and retrieve information for decision making. As a critical resource for innovation, developing leaders’ cognitive processes and choices may result in substantial advantage.

2. Invest in people. Innovative firms spend considerable time assessing the right people for their firms. They determine expertise of the new hires and fit with the firm. With various inductions in place, the culture (including an innovation culture) can be inculcated into new employees. In addition to expertise and fit, firms can also think in terms of how a new employee can add to the culture and bring something new to the culture rather than just fit in. Employee diversity could also foster innovation.

3. Invest in partnering/adapting ideas from others. Collaborating is an effective way of enhancing capabilities in cases when a specialist would not be fully utilised if they were hired full-time. Collaborating can also potentially create a pool of external people who know the business, particularly if there are repeat collaborations with the same people. Firms do this particularly with

information technology systems. However, they could do it for more capabilities. For example, we found that few firms engaged in marketing innovation. One firm used a marketing firm to actually suggest potential products for them, based on their knowledge of the market and what is likely to be successful. Another potentially hot area is to ride along the wave of the shared economy to acquire ideas from crowdsourcing etc., which could provide fresh ideas from diverse sectors and it is also low cost so any firm can afford it. This does not mean that firm should always outsource the leading edge of their thinking. In fact, to retain highly motivated and dedicated employees some firms find it prudent to use such opportunities as career development pathways. To achieve this they hire temporary workers to do the daily tasks which allows highly motivated employees to take on a big challenge. This frequently offers many benefits not the least of which is developing talent and capability that stays with the firm.

4. Expand or maintain a high focus on innovation and technology. Many mid-market firms are innovative and use technology in a variety of areas but there is room for improvement. Specifically, functionality can be improved by using technology to add to existing products and services. For example, firms could note when a product is installed and have a message appear on their computer when it needs

to be serviced, and then could contact the person (service innovation). Firms could make more use of social media for engaging their unhappy customers, because converting an unhappy customer into a happy customer is both good service and good marketing. Creating smart phone apps that have a community interaction element can assist with powerful word-of-mouth marketing.

This study has provided some solid knowledge on mid-market firms' innovation processes and outcomes. Moreover it has confirmed the importance of leader cognition and the subsequent choices that leaders make. We will be using this research to springboard into the next phase of our next research scheduled in 2016, which is a laboratory study and a longitudinal survey study. Through these next studies, we will investigate further connection between managerial cognition, resource choices, governance, and various types of innovation of Australian mid-market firms. Results will allow us to generate evidence-based advice to leaders of Australian mid-market firms.



APPENDIX A: SAMPLE AND DATA

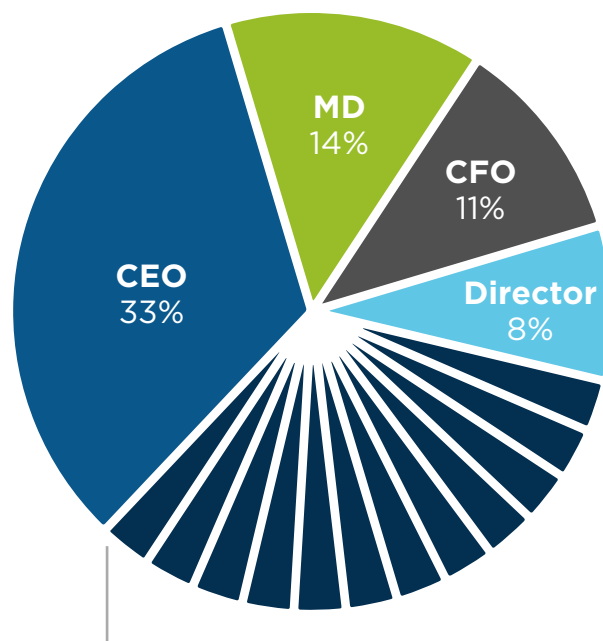
About the firms

Most of the mid-market firms included in this study were contacted from the GE Capital and Australian Graduate School of Management events held in 2015 such as the Mid-Market Awards, the Mid-Market Growth Forum, and the Mid-Market Consortium. This ensures we included a majority of innovative companies in our sample. One other company was recruited through cold-calling.

Demographic Information of the Firms

We interviewed leaders from 35 mid-market firms between November 2014 and March 2015. Twelve were CEOs, 5 were Managing Directors, 4 were CFOs, 3 were Directors and several others held other titles (see Figure 1). Our sample included firms from every annual turnover bracket, but more firms were in the higher annual turnover brackets. Nineteen firms were in the \$50 million and over annual turnover bracket, 12 firms were in the \$20-\$50 million annual turnover bracket and 5 firms were in the \$10-\$20 million annual turnover bracket (see Figure 2). We use these size categories in our later analysis as large, medium, and small within the mid-market sector. The sample was roughly equally split in terms of ownership. Thirteen firms continued to be driven by the original founder, 13 firms were private companies, and 9 firms were public companies (see Figure 3). The sample included firms spread across industries with different ANZSIC codes. Six were from manufacturing, 6 were from wholesale trade, 5 were from property and business services, 4 were from retail trade and others were spread across different industries (see Figure 4). Most of the firms had their head office in Sydney but were national companies. We also included firms from Brisbane, North Queensland, Melbourne, Adelaide, regional Western Australia, and regional New South Wales.

FIGURE 1: Job title of leaders in the mid-market firms



- Managing Partner
- Executive Chairman
- Deputy MD Partner
- Regional Manager
- Finance Director
- General Manager - Marketing
- Publisher
- Marketing & Communications Mngr
- Marketing & Planning Manager
- National Human Resources Manager
- Client Director



FIGURE 2: Annual turnover of mid-market firms in the sample

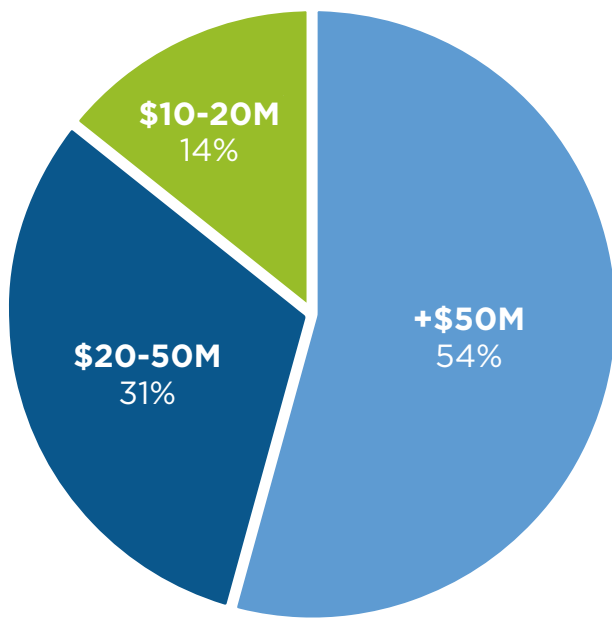


FIGURE 3: Proportion of mid-market firms that are founder-oriented, private and public

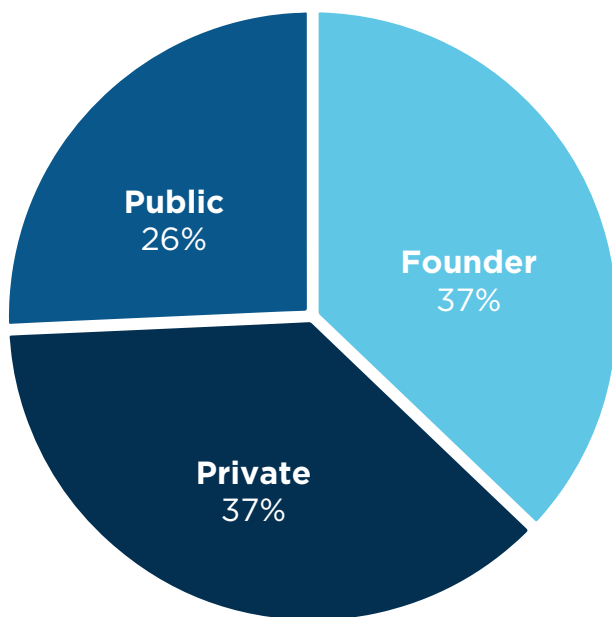
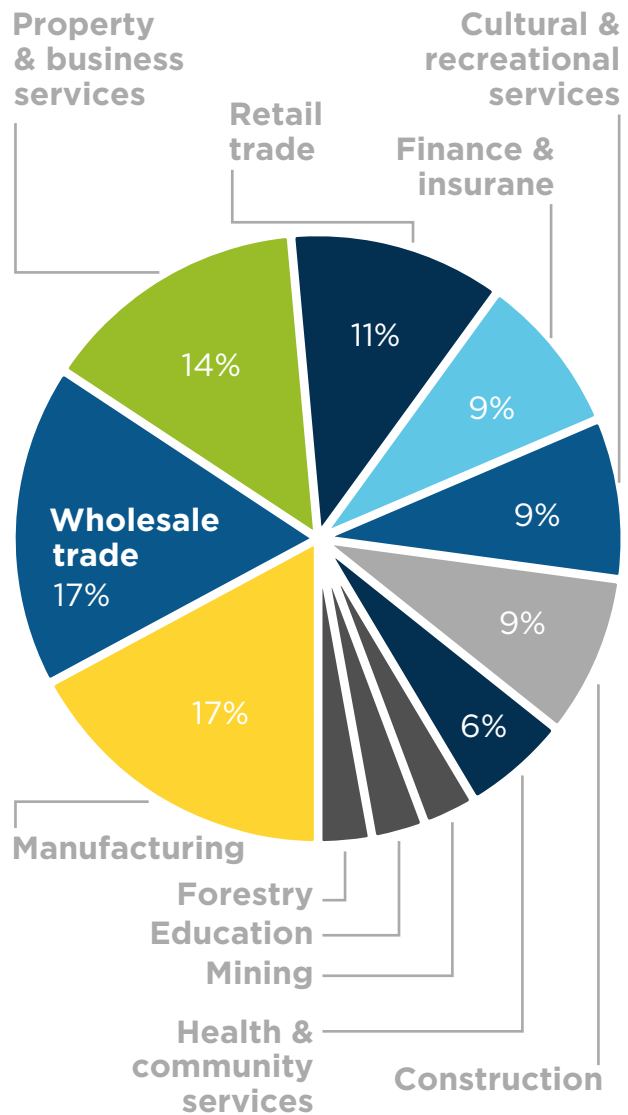


FIGURE 4: Industries of the mid-market firms by ANZSIC code



APPENDIX B: INTERVIEW PROTOCOL

Each interview lasted approximately 60 minutes. The interviews were semi-structured, which means there were set questions, but other questions were asked if pertinent issues arose. The interviewer that went to all the interviews asked the main standard questions and the other interviewer asked additional questions. Here is the interview protocol for the main questions that were asked.

Background info

[Company webpage and info are checked before the review]

Can you tell us some history of your company? What is your business? When it first started? How it grows? Size and market at the moment? Level of competition and the pace of change in the environment?

[Variables of interest: environmental uncertainty, technology, industry competition, industry, firm size, firm age]

1. Innovation

What does innovation mean to you? Do you perceive your firm as innovative? Why and why not?

- Would you briefly describe your general approach toward innovation?
- What are the drivers and barriers of innovation?
- Has your firm pursued different kinds of innovation from its early days?
- Are you happy with the innovation of your firm at the moment?
- What role does CEO or top managers play on innovation?

[Variables of interest: innovation type, innovation level, change in innovation strategy, CEO style]

2. Governance

Could you tell us how you manage/control/oversee various aspects of the company?

These can include goals, performance tracking, and communication.

Governance issue distinguishes medium-sized firms different from small and large firms. MM firms are too big for the owners to dominate, but at the same time too small for formalized control system.

- Do you have formalised control mechanisms to monitor progress or goal achievement of innovation projects?
- What aspects of the governance really work well for your organization? And, which aspects could be improved?

[Variables of interest: formal governance, goal setting system]

3. Resources

Would you please describe how your company obtains and manages the resources for innovation?

- What are the critical resources your firm lacks regarding innovating? How do you deal with these issues?
- Do you rely on external business partners on resources for innovation?
- Whom do you rely on?

[Variables of interest: sources of external resources; level of external resources, ratio of external vs. internal resources]

4. Performance

How would you rate the company's profit and performance? What is the outlook down the road in 2 years? and 5 years?

- What are the key challenges for the company?
- Is innovation a key to profit down the road?

[Variables of interest: medium and short term profit and performance]

Rounding up

- Are there any other insights or approaches to innovation or growth that make your organization successful?
 - Given the nature of our study, is there any other information that you think might be relevant to our research?
 - We really appreciate your time and insights. Are there any questions you would like to ask us?
 - We will provide you a report of the research finding at the completion of the study around mid-2015.
-

APPENDIX C: CONTENT ANALYSIS

Each of the interviews were analysed using content analysis. We went through each of the transcripts and coded each of the relevant functions including innovation outcomes, innovation processes, and challenges. The process of coding is an iterative where analysis and reflection on the analysis is conducted to gain an understanding of the data (Eisenhardt, 1989). Eventually, the researcher reaches theoretical saturation, which is where no further interviews would gain substantially new information. The interviewer who went to all the interviews conducted the content analysis and the content analysis was checked (and in some cases changes made) by other members of the research team. Using the content analysis, we have various types of data including summaries of the different codes and frequency counts to analyse which issues arose in the interviews most frequently. We also have quotes that support our interpretation of the data.

The idea behind this qualitative style of research is that we have rich and diverse data where each case is a substantial unit of analysis in its own right (Yin, 2003). This contrasts with quantitative research where statistical representations of a broader sample are used and each individual unit is less important. Both styles of research are important and both have their strengths and weaknesses. Qualitative research is often conducted initially to gain deep understanding, and this is followed by quantitative research to gain a broader understanding that is more generalizable, because usually there is a larger and more representative sample size.

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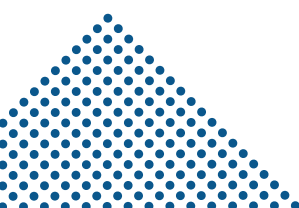
APPENDIX D: RESEARCH GRANT DETAILS

This interview study is part of a series of studies on Australian mid-market firms. We also plan to conduct a laboratory study and a longitudinal survey study to learn more about innovation processes and outcomes. We hope the findings can improve the performance of mid-market firms. The research is supported by an Australian Government (Australian Research Council) grant (LP140100838). Our linkage partner is GE Capital Australasia Pty Ltd. The UNSW-Australia is also a partner in the grant as all the staff are employed in this institution and pay their salaries and other resources.



APPENDIX E: THE RESEARCH TEAM

- Lead researcher: Associate Professor [Steven Lui's](#) research focuses on interfirm cooperation, trust, and innovation. His research examines how cooperation leads to innovation and when trust becomes a liability in cooperation.
- Professor [Chris Jackson's](#) research focuses on cognition, change, innovation, and performance.
- Associate Professor [George Shinkle's](#) research investigates strategic goal setting, strategic agility, innovation, strategy formulation, and strategy implementation, particularly in turbulent environments. His research targets the nexus between strategic management and organisation theory.
- [Dr Salih Zeki Ozdemir](#) investigates how the overall structure of social networks and organisations' positions within these networks affect the strategic decisions they undertake. He also researches the evolution of these social networks based on the actions individuals and organisations perform.
- [Benjamin Walker](#) (research fellow) investigates biological models of personality and cognition and how they predict functional and dysfunctional outcomes including creativity and innovation.
- [Neelu Kapoor](#) is a senior manager, strategic marketing and insights, at GE Capital. She supports the marketing strategy and leads the customer insights and market intelligence program across GE Capital Australia and New Zealand.



APPENDIX F: ACKNOWLEDGEMENT

We would like to thank all the participants in the study. They gave up their precious time to share insights into their company's inner workings. We would also like to thank Anthony Spargo and Neelu Kapoor from GE Capital who have been supportive of the project and given advice and assistance whenever needed. Susan Alleyn and the AGSM Executive Education Team have provided tremendous administrative support. We would like to thank GE Capital and the Australian Research Council for funding for this project to enable unique insights into a previously unexplored area.

Further contact

We will conduct further research on Australian mid-market firms in 2016. If you are interested in participating in future studies, please contact Benjamin Walker on 02 9385 5801 or b.walker@unsw.edu.au, or any member of the research team.

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