Entrepreneurial Innovation:
What needs to be in place to allow the middle market to grow?

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Why does the mid-market matter?

- Fastest growing sector of firms in the UK economy
- Skilled workforce has high levels of productivity
- Key node in international supply chains

Source: GrantThorton
How does Scotland stack up?

- Scotland has expected number of middle-market firms based on the size of its economy.
- Lower than expected number of large middle-market firms, but better than other regions.
- Manufacturing largest sector in Scottish middle-market, but FIRE sector important as well.
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**Scottish Mid Market Firms by Sector**

- Manufacturing
- Real Estate
- Wholesale
- Construction
- Motor Trade
- Transport
- Mining
- Finance
- Retail
- Agriculture
- Hospitality

Source: BIS
Innovating in Middle Market Firms

- Middle-market firms need to innovative if they are to thrive in global economy
- Importance of *process innovation* rather than *product innovation*
- Innovation is demand driven rather than coming from internal R&D or university research
Keys to middle-market innovation & growth

- Sales force who can act as innovation scouts
- Workforce who can develop bottom-up process innovations
- Managerial know-how about internationalization
- Cultural shift for owners and managers
Sales-force as innovation-force

• Sales calls are a key source of knowledge about customer needs and unmet opportunities

• Requires open communication between sales staff and production team

• But does Scotland have enough skilled sales people?

Source: ONS 2014
Workers as innovators

• Worker innovation key part of *kaizen* production system developed by Toyota

• No one better positioned than workers identify and overcome problems in production process

• But requires highly skilled workers with confidence in management
Managerial know-how

• Middle-market firms’ extreme focus are their greatest asset and greatest liability

• Need to embrace global market in order to compensate for narrow client space

• Global expansion know-how very different than operational know-how
Creating a cultural shift

- Firms can’t be forced to grow — there needs to be the desire

- Highlight success stories and share experiences from other middle market firms

- Cultural shifts are a long-term project; won’t happen overnight!
Building innovative capacity in middle market firms

- Traditional view of innovation: laboratory science leading to new product

- Real process: market-led development driven by ‘good enough’ innovation

- Requires skilled and adaptable workforce with knowledge of the production process and market

- Focus on internal capabilities rather than technology transfer
Learning from Germany

• Apprenticeship system creates large pool of specialized workers

• Wage agreements create incentives for firms to invest in worker training

• Cooperation between numerous firms to support final client

• Long-lasting relationships with clients and suppliers
Scotland isn’t Germany

- Higher job mobility and less incentive to invest in worker skills
- Shorter profit horizons make long cooperation and customer relationships difficult
- Different economic structure means German solutions can’t be easily implemented in Scotland
Scottish solutions

• Draw on existing public sector resources to encourage internationalization (e.g. Global Scots)

• Work to unleash process-driven innovation through worker and managerial training

• Ensure stable employment during economic downturns through salary support

• Look to colleges, not universities for innovation support
Thank you