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## A Framework for Installing Innovation into a Small Enterprise

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# A Framework for Installing Innovation into a Small Enterprise

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Charles R. B. Stowe and Robert J. Lahm, Jr.

The key to innovation is *creativity*, which like a widely-used idiom is more intuitively understood than defined.

Torrance, an eminent psychologist, defined creatively as

a process of being sensitive to problems, deficiencies, gaps in knowledge, missing elements, disharmonies, and so on; identifying the difficulty, searching for solutions, making guesses, or formulating hypotheses about the deficiencies: testing and retesting them;

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and finally communicating the results (Jalan & Kelliner, 1995).

Others have described creativity as an idea that is novel and adaptive to reality (Jalan & Kelliner, 1995).

Some people decide that creativity is not one of their attributes even though psychologists generally believe that creative potential is innate to human nature (Winslow, 1990). It could be argued that circumstances beget creative behavior. Further, writings in the literature of business may neglect instances of extraordinary creativity. For example, exceptional creativity can be observed in accounts of organized escape attempts from prisoner of war camps. Others may feel that creativity or the ability to innovate is an event and not part of a process that can either be learned or institutionalized. Outside high technology firms, many small business owners equate innovation with expensive and arcane research that only large firms can afford (Innovation:

You have genius, 2002).

Just as those researching entrepreneurship dealt with the issue of whether entrepreneurship could be taught, psychologists and management scholars have been wrestling with a working definition of creativity and innovation to deal with the issue of whether innovation can be learned and whether organizations are capable of institutionalizing an innovative environment (Willis, 1991). This article looks at innovation and creativity as they apply to small business concerns. It has the ambitious goal of proposing a framework with which to analyze the complexity of innovation and its implications for small business.

## **Distinguishing the Terms Creativity and Innovation**

While much of the literature equates creativity with innovation, it is useful to separate the two when building a framework for injecting innovation into an enterprise. For this purpose, creativity is defined as ideas

that are imaginative, novel or artistically appealing. Creativity, in this context, may solve a problem or may simply be appreciated for its aesthetic value. Not all creative efforts result in innovation. Creativity may also arise not so much from purposeful effort, but rather, from one's unique point of view. For example, people of color who may encounter products that were designed for consumption in a cultural context associated with Caucasian origins might long for greeting cards, children's toys, or personal care products that are representative of their own ethnicity. The lack of market choice may result in creative insight without effort or intent, per se. In interpreting this latter case one might argue that while it is difficult to impose serendipity, conditions may be identified wherein it is more likely to occur.

The reason for making the distinction between creativity and innovation is that there are those who promote various approaches to the former term such as brainstorming, mind mapping, Lotus blossom technique and other exercises to encourage organizational creativity (How to manage creativity, 2003). Innovation, on the other hand, is oriented toward solving a problem and has a very high utilitarian value. Viewed within this context, an individual who feels that

they are "not creative" may none-the-less be capable of being "innovative."

An industrial designer, Arnold Wasserman, a partner of the Idea Factory explains that

People always tend to use the terms innovation and creativity interchangeably. We're very clear about the linkages and the distinction. Creativity is getting the great ideas, it's sort of the R&D, and everybody is creative... Innovation, however, is "creativity implemented" (Callahan, 2003).

Wasserman draws the distinction between creativity and innovation by emphasizing that innovation changes life, creates value and generates revenue whereas creativity is about getting ideas. Innovations are ideas that are implemented. This utilitarian approach towards creativity and innovation forms a vital concept in implementing the proposed framework for innovation for a small enterprise.

Licensed professionals such as lawyers, doctors, and architects are essentially self-employed. The same is true for barbers, plumbers, electricians, physical therapists, and other vocational professions.

These individuals are quite expert at performing specific services or tasks. They have some expertise in their particular vocation as evidenced by their licensure, competencies, and reputation. Their expertise may well involve solving problems for their clientele. The extent to which they are innovative in managing their business is a separate issue from their personal creativity and imagination. Knowledge and education do not necessarily correlate to innovation or creativity. Indeed, relative to the aforementioned notion that a differing point of view may lead to creativity, circumstances could be supposed wherein unfamiliarity with the conventions of a given discipline could result in fresh insights (Kuhn, 1996).

Creative talent needn't be identified as a trait that permeates a given individual's entire being. For example, the architect that designs highly creative and innovative structures may have very little success in organizing his firm in a highly profitable and innovative manner. Similarly, the owner of a highly successful car dealership may see himself as good at solving problems but may not see himself as creative. From this perspective, creativity and innovation are not similar. Innovation is tied to the manner in which the entrepreneur or small business owner not only

serves their customers, but on how well they manage their firm. Creativity refers to their imagination, which may not necessarily translate to extraordinary profits or innovation in their organizations. Finally, there is the example of the classic “starving artist.” Here we find instances of perhaps profound creativity without profits from having what could be characterized as a lack of sales, promotion, and/or distribution prowess (or success).

The other distinction implicit in this framework is to recognize the difference between individual intellectual capital and structural intellectual capital or knowledge that is corporate in nature. Organizations develop their own culture or environment which may either foster innovation and creativity or may be stifling and bureaucratic (Fisher, 1997). In the latter case, acts of innovation may be regarded as rebellious or otherwise undesirable, or they may actually provide a means of escape from the organization on the part of individuals who see the potential for opportunity in pursuing an innovation (that the bureaucracy typically either does not notice or does not wish to implement). Individuals may bring their own innovation (the ability to solve problems) and creativity or

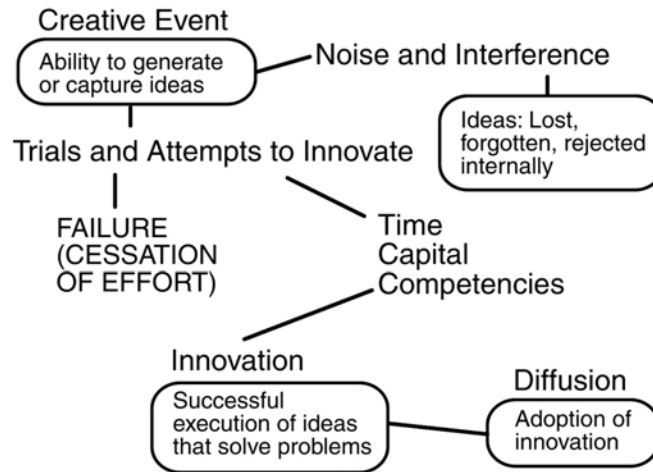
they simply perform the tasks that they are assigned without much mental involvement in the workplace. It can also be the case that certain individuals purposely seek work of a menial nature so as to provide basic sustenance while they nurture creative activities or other pursuits on the side. Large organizations with their implicitly or explicitly expressed social hierarchies may overlook the potential of ordinary rank and file employees. The extraordinarily successful Liquid Paper brand (Liquid Paper: History, 2007) was created by a secretary who noticed she could correct mistakes in her bosses’ letters (hence, she originally called the product Mistake Out).

For smaller enterprises, innovation may be thought of in terms of the outcome of production (the product) and in terms of processes that result in the development, marketing, distribution, and promotion of the product or service. Looking at innovation in the context of the product or service, innovation may be categorized into four distinctive categories: incremental innovation, modular innovation, architectural innovation and radical innovation (Bixler, 2002, June). Incremental innovation refines and extends the design of the product or service and

occurs on individual components with the architecture remaining the same. Modular innovation involves major changes to the established component design, with the architecture remaining the same. Bixler gives the example of switching from analog phones to digital phones. Architectural innovation changes the architecture but not the component, thereby establishing a new way to link existing components. Bixler cites the examples of hooking televisions to satellite television services or to digital cables. Radical innovation establishes a new and dominant design where both core design and architecture are changed. The advent of the DVDs to replace videos comes to mind. These categories reflect different types of innovations that are tied to the manufacture or design of the product.

There are other equally important functional or process oriented innovations particularly relevant to the small enterprises. These include innovations in marketing, human resource management, distribution, and finance. Innovation in the context of a business is the capacity to redesign processes, develop new products, and devise fresh business models (Johnson, 2006)(See Model 1).

**Model 1**  
**The Connection Between Creativity and Innovation**



Ideas are intellectual expressions of new realities or perceptions

**Starting Point in Building a Framework for the Small Enterprise**

Small business innovation rates per employee are greater than that of larger firms (Brady, 1995). On the other hand, many small firms that are owner-managed do not have the infrastructure and sophistication or formal commitment to maintaining competitiveness through innovation as reflected by overall lower profit margins. Thus, the challenge to the owner/manager of a small enterprise is to use a framework to analyze their attitudes, policies and strategies to invite, provoke, and manage innovation.

The starting place is with the owner/manager. Smaller firms with few personnel are very likely to reflect the personalities and

perceptions of their owners or leaders (Furnham & Gunter, 1993; Jill & Lisa, 2002; Judge & Cable, 1997). With that in mind, it is essential that leaders review their perceptions and understanding of innovation. The firm's mission statement may reveal the extent to which innovation is incorporated into the organization. If the mission is stated in static terms that are "task" related, and if that mission actually forms the lens from which all activities are measured, then the small business will be static or orthodox in its approaches. For example, a dry cleaning shop owner posts their mission as

*To render excellent service in dry cleaning fabrics used for clothing or in households.*

The mission statement above focuses on the task of cleaning materials. It is quite different than the following:

*To help our customers solve their problems in maintaining clothes and fabrics.*

The two example mission statements are admittedly simplistic, but one mission focuses on cleaning fabrics, the other attempts to force the firm to think of itself as a solution to customers' needs for clean clothes and fabrics. The firm that frames its existence around a static function is quite different in orientation to one that sees itself responding to needs or problems.

While a mission statement is merely a group of words which may have

little direct influence on employees or management in actual practice, the mission statement does reflect the attitude of the owner toward their business. Their attitudes towards their organization will help set the culture or environment for their employees. If the firm does not have a mission statement, there are other signs or suggestions concerning the extent to which the firm itself may nurture innovation that will be revealed through comparison of the framework for innovation against the firm's policies and culture (Donald, Charles, Martin, & Andy, 2003). Refining the business mission with the owner/manager is a useful exercise in building a new framework to promote innovation. Instead of the sentence or phrase that implies a task, the mission should be stated in terms of "problems solved for the customer."

Perhaps the most significant contribution of this framework for installing or spurring innovation in a small firm is to challenge the owner/manager to consider what his or her attitude is toward their business mission and how they might alter their attitudes to promote an innovative organization (Schmidt, 1990).

### **The Framework**

The framework we propose builds on two facets

of an organization: the unique individuality of its members, and the structural environment that is built into the organization's culture. The problem with many commentaries is that they focus on developing individual creativity or organizational innovation, but not both. Even large organizations find that sending individuals to creativity and innovation courses does not tend to make their organization more innovative. Individuals who experience or learn about innovation are likely to become frustrated when they return to their organizations if an infrastructure of policies and incentives is not there to allow them to behave entrepreneurially. The framework that we address in this present article is unique in that it is oriented to small businesses.

Management literature on innovation tends to focus on large organizations and how they accomplish their goal of being innovative. A very popular example is 3M, which is literally cited in hundreds of articles. This framework is oriented toward the smaller firm that cannot spend millions of dollars on an infrastructure devoted to the creation of incentives and policies to encourage "intrapreneurship." Another popular example is Toyota. Toyota University was established by the car manufacturer in

1999, and now offers more than 400 courses to 8,500 employees in the United States. "It consists not only of an electronic learning curriculum, but also a selection of seminars held at various locations around the country" (Parkhurst, 2006).

While the small business may lack the resources to create innovation centers in the context of building substantial corporatized training and management development facilities and programs, their owners can begin the innovation journey by seeing their business as an idea incubation and implementation center unto itself. Although they may not be able to invest in staffing to support innovation a formalized training and development program, prior to setting up a framework for innovation, they can also immerse themselves in some of the popular literature on innovation.

Before developing the actual framework, it is necessary to recognize the synergy between individuals and their organizations. Organizations, even small ones, create a culture of expectations and attitudes that affect behavior. In small businesses, the impact of the leader's or owner's personality and shortcomings are directly felt by the firm's employees (Bennis, 1991; Guest, Hersey, & Blanchard, 1977; Katzenbach et al., 1996; Kirkpatrick & Locke, 1991;

Paul & Ron, 2005). The owner-manager's influence is even greater when the employees are family members or close friends. The attitude of the owner-manager toward his or her business and employees is critically important in shaping the culture of the work environment.

Further, to assume based on stereotypes about entrepreneurs that they are necessarily creative is probably not going to be helpful. Many entrepreneurial businesses are simple in nature and are derived from borrowed ideas, e.g., beauty salons, bakeries, lawn care services, and the like. This is not to suggest that the owners of these simple businesses are not creative, on the other hand they may or may not be mimicking a business model and practices that are well-established and quite widespread.

Many businesses are started because the entrepreneur wants to have greater control over his or her environment; however, this quest for independence and control can also be an impediment to innovation and change as business founders who wish to exercise greater control may also tend to create organizations with authoritarian style of management, wherein employees were directed as to their activities as opposed to being empowered to make decisions. This style of management, where

employees are seen as mere extensions of the owner, is not conducive to creativity or innovation.

A study of 169 managers revealed that the biggest predictor of innovation success was the quality of human relations management (Khandwalla, 2006; Service & Boockholdt). At the core of the new framework for innovation are the owner/managers of the business who set the tone for the entire organization. Creativity and innovation require a process of empowerment of employees which may be threatening to their sense of ownership through control.

#### **The First Step in Constructing a Framework for Innovation: Familiarity with Existing Concepts in Light of a Current or Revised Mission Statement**

The owner/manager must become acquainted with some of the popular business literature on innovation, followed by a re-examination of their own mission statement. It would also be an extremely useful exercise to employ a 360 degree approach; that is, the owner should involve employees, customers, suppliers, and boundary spanners (intermediaries between the internal organization and its external environment) so as to determine how an existing or revised mission might jibe with reality.

#### **A Second Step in Building a New Framework: Creating a Shared Experience and a Commitment to Employee Development**

Developing an affordable format for a shared experience with the owners and employees participating in an innovation training program is the second phase of developing a successful framework for creating an innovative organization. While a popular managerial response to improving an organization's innovation has been to send employees to innovation training, this approach tends to be expensive (and potentially divisive as all employees might not be able to attend the same program). When employees return to their organization, they may meet with resistance from those who have not shared their training experience. For the small firm, the answer is to bring the innovation training to the firm in a time and place that allows for *all* employees to obtain a shared experience. We might add that even larger organizations should perhaps take heed of this notion and remember the story behind Liquid Paper ("Liquid Paper: History," 2007) – one's place in an organizational hierarchy does not necessarily relate to his or her potential to exercise creativity or to be innovative (Stevenson & Bartunek, 1996).

The shared experience coupled with the owner/manager's commitment to internalize the goal of encouraging imaginative approaches to improving the business is more important than the amount of money expended on research and development. A study of the top 1,000 global research and development spenders found that superior results seem to be a function of the quality of an organization's innovation process—the bets it makes and how it pursues them—rather than either the absolute or relative magnitude of its innovation spending (Crosby & Johnson, 2006).

Fortunately, there is an abundance of sources for this training ranging from local universities that have "Centers for Entrepreneurship" to the Small Business Administration, to commercial consultants, to authors like Gerber (Gerber, 1995) who have organizations that offer training and consulting on the issues of innovation. Trade Associations also offer courses on innovation and trends in their respective industry. Annual trade association conferences usually include seminars and workshops for owner-managers at very reasonable rates. This does lead us to another point, which is to suggest that perhaps business owners should question their own roles: are they there to manage, or are they there to lead? (Fisher,

1997; Schein, 1992). All leadership roles that are associated with growing businesses entail the development of other persons such that they may assume new roles in a constantly developing organizational system.

### **Third Step: Create Genuine Stakeholders**

The framework should include a written plan for altering compensation and employee recognition (Wixom, 1995). For owner/manager-led businesses, the biggest change must come in the manner that the manager treats the employees. Many small business owners complain that they

can't find employees who have the passion for the business that they do or even a sense of personal pride and responsibility for the work they do (Gerber, 1986).

Michael Gerber, author of *E-Myth*, contends that small business owners are often looking for the perfect employee rather than understanding that the success of many large firms is that they have "systems" that allow ordinary individuals to do extraordinary things (Gerber, 1995). Owner-managers may need to alter their attitudes away from one of seeing employees as

extensions of the owner/manager that rely on the "boss" for all instruction, guidance and decision making toward seeing employees as problem-solvers who need to be empowered to be successful.

A firm's compensation system should be altered to reward those who identify problems propose solutions (Dyson, 2002), and build positive relationships with customers. An owner-manager of a successful Houston furniture store decided to change their compensation package from one of sales commissions to profit-plan sharing. When inventory and delivery personnel were included in the overall sales/marketing plan and compensation system, productivity and sales per square foot increased dramatically (McIngvale, 1996). Gallery Furniture was started in Houston in 1981 and today does \$140 million in sales representing 18 percent of the Houston furniture market (Anderson, 2007).

While owners may fret over the costs of such a plan, the reality is that the monetary recognition is the least important aspect. Individuals who serve in the Armed Forces will put in extra hours for the privilege of wearing a service ribbon that costs the government less than two dollars. These personal award ribbons are not given for being in a certain place or in a certain military engagement, but



are given for personal achievement, merit and hard work beyond the norm. Some organizations give plaques for longevity, but the most prized recognitions are for employee of the month, quarter or year. As counterintuitive as it may seem, owners should focus on allowing employees to create great résumés that make the employee more marketable, while at the same time providing work that is so fulfilling, the employee stays (Brewer, 1995). Employees who felt fulfilled will stay even when called by recruiters who may try to seduce them away to another opportunity.

Entrepreneurial firms have long used stock options and other more sophisticated systems to reward employees for taking initiative. For many small firms in the service industries such as appliance repair, roofing, lawn service, employees need to have recognition and reward systems that are more direct and easier to comprehend. Such reward systems need to be carefully designed so as to produce activity and motivation that benefits the company.

The other aspect of an effective recognition and reward system should be one that encourages teamwork rather than individualistic, competitive behavior that pits one employee against another. Just as a sports team can actually suffer if its lead

player has too large an ego, a business performs best when employees can form teams, solve problems that are structural, and improve service to the customers. Oddly, the individuals who are often at the bottom of the compensation pyramid are the ones who can create the most damage in customer relations. An owner of a computer repair and internet hosting service told me he did not understand why the firm didn't have more business given the amount of foot traffic. The owner would arrive around 9:30 a.m. while his staff would arrive at 8:00 a.m. to open the store. One day, the owner came at 8:00 a.m. to discover that the store was dirty and counters were covered with powdered sugar from donuts and rings of coffee stains. Subconsciously, potential customers were unimpressed by the appearance of the store and its lack of cleanliness (Interview).

#### **Fourth Step: Remove Barriers and Enhance Communication**

Inspiring employees to become more alert to their jobs and to better communicate their observations is the fourth leg of a framework for developing a more entrepreneurial or innovative culture. Much of the communication will be statements of problems rather than innovative

solutions because employees may not initially feel they have the ability to develop solutions and because they may feel that is "above their pay level." Whether self-imposed or the result of being treated as incapable of running a business, the first step to releasing an individual's creativity is to permit them to speak openly. Individuals should be able to voice concerns even when they may not be in a position to offer an elegant solution.

For most small businesses innovation is not a single event or an industry-changing event—although creating a company like Google illustrates how a small group of people can transform an industry. Industry-changing innovations are not every-day events, but developing a firm that is innovative in its approach to the market, to quality, to customers, and to all its activities is more of a process. Innovation should be thought of as the resiliency of an organization to respond to market demands, changes in technology, or to its competitors. With respect to competitors, it is interesting to note that even they can become prospective partners. For example, while two restaurant owners may see themselves as competing, an alternative might be for them to see themselves as allied in an effort to promote the patronage of a downtown

entertainment district (so that everybody wins).

Innovation can be enabled through any activity, policy, or plan that increases sales, improves the quality of the product or service (creates a new solution), or increases efficiency (Crosby & Johnson, 2006; Kelly, 2001). To create an innovative environment requires a process and structure that invites employees to question current procedures and systems. Unfortunately, for the small business owner/manager, that questioning may come across as a personal attack or criticism by someone who probably has much less experience in that industry, has not made the sacrifice or personal investment into the business, or whose motivations may be simply to do less work!

It is incredibly powerful to keep in mind, that outsiders or individuals who are not fully integrated into an existing organizational system (its culture or paradigm) have one advantage: ignorance that begets questions, however (Kuhn, 1996). These questions may ordinarily be associated with perfectly good answers, but on some occasions, the answers may not be so good. Namely, answers that consist of

*that's the way we've always done it [but*

*we no longer even remember why]*

have the most potential to create an organizational learning moment that could yield anything from an incremental process improvement to a complete epiphany.

Creating a system that defuses the "threat" is perhaps easier when one embraces an environment and conditions that break down barriers. Many of these barriers are physical, but most are socially imposed (Berger, Fisek, Norman, & Zelditch, 1977; Reiss, 1977). The Ford Motor Company plant in Hapeville, Georgia, turned its executive dining room into an ordinary meeting room; judging by clothing and appearance, one cannot tell who is higher up in the organizational hierarchy; and employees openly commiserate, joke, and banter back and forth with individuals who are in fact, appointed managers in that hierarchy.

Another technique to encourage more communication between the owner and employees is the "employee suggestion box" coupled with an award system. A small award would be given for alerting the owner of a problem but larger awards might be granted for those who propose practical solutions that get implemented.

Decades ago, Boeing Aircraft had the problem of birds and trash getting into the engine housings. To prevent the aircraft shells from being damaged, Boeing had circular covers made at a cost of \$800 per engine housing. One of its employees wrote a suggestion card stating that the company should buy inflatable swimming pools that were circular to block birds and trash from getting into the housings. At the time, the Disney inflatable swimming covers could be purchased for \$10 or less! While the solution was elegant and simple, the real challenge for Boeing was creating a culture that inspires "out of the box" solutions.

Simply hiring a consultant, sponsoring a weekend retreat, and talking about innovation is not enough. At each level of the organization a neutral individual should be implanted into a work group to observe, listen and challenge co-workers to discuss and question how their particular function, service or process can be improved which is half of the challenge. The other half is to open up the opportunity for individuals at all levels to understand that their ultimate welfare and job security depends not only on doing tasks well, but on helping the company become resilient to changes

in customer needs and tastes, but on other issues that may even be outside their area of responsibility or expertise.

For a small business this might mean a more aggressive system of customer communications (e.g., through survey or focus group research), or lunch with the boss to chat about what the employee has observed about the company relative to customers or to their own prior experiences. It may mean sending emails to employees reminding them of the major lessons learned during their training. It may be as simple as actually reading trip reports from sales personnel which often get filed without being analyzed!

Perhaps one of the best ways that a business owner can learn to open communication and foster creativity is to carefully observe the masters. Who are the masters of creativity? Organizations that in fact, create for a living: ad agencies (David, 2006), film producers, industrial design studios (and others). Many of these firms purposely design situations and a physical environment that provokes creativity. No ad agency copywriter's office door would be complete without a miniature basketball hoop, into which rejected ideas are thrown such that they ultimately land in a wastebasket, eagerly waiting below. Nor would that

copywriter's day be complete without the put-downs and critiques that come from peers who under no uncertain terms are socially entitled to say, "that's a dumb headline idea." However, it would be a lonely and quiet day at the ad agency, as well as unproductive, without these criticisms. Indeed, in these highly creative environments, minds are accustomed to playing off of one another, and the so-called dumb ideas that are generated typically are followed by the brilliant breakthrough ads that arise from subsequent iterations.

**Fifth Step: Develop a Structure Whereby Intellectual Capital is Retained by the Organization**

In addition to inspiring and motivating employees to become more individually productive and efficient and to share their perceptions of "what is going on in the business," the small business owner should attempt to build "structural intellectual capital" (Rastogi, 2002; 2003). Because employees change jobs more frequently and because so many small businesses rely on part-time employees, a fifth element of a framework for innovation for a small firm lies in developing systems that become the basis of an organization's structural intellectual capital. Structural intellectual capital refers to what an employee "leaves

behind" should they leave the firm. Many small businesses simply seek to replace employees who are able to "do the job." So, they focus hiring procedures on qualifications and credentials. A systems approach still regards qualifications and credentials as being important, but focuses the owner/manager on developing written procedures, plans and policies for every activity of the business in a way that "traps" what others have learned in the course of doing their job.

The concept of developing a system approach to a small business is best illustrated by an example: A married teacher with a master's degree in education left school teaching to raise small children. When they were old enough to attend school, she formed a home cleaning business in her residential subdivision. Being a highly organized individual, she produced laminated checklists of cleaning duties based on each customer's specifications. When she began to have more business than she could handle, she hired employees to help her. Her laminated checklists allowed those employees to document the work done while maintaining some quality assurance. The laminated checklists also served to "train" the less experienced. She also kept a diary of her marketing activities with

individual folders for each flyer that she used, a log of results, and a budget for that particular activity.

Some of her marketing activities were not successful, but some were. She thereby gained tacit knowledge and insights, but beyond that she had a physical record of what worked and what didn't work. This in turn became extraordinarily valuable knowledge (which was an important contribution to her company's intellectual capital holdings, even though she may not have identified these insights as such). Having started her business with less than \$50, she sold the business to an employee a year later for \$4,000. That employee expanded her business based on the "intellectual capital" that was retained in the business, and being an engineer from India, she computerized the checklists and marketing strategies and the business grew four-fold.

All businesses must market, produce a product or service; handle logistics; manage their finances; keep accounting/financial records; comply with laws and regulations; pay taxes; control or at least attempt to reduce their risks (e.g., through the purchase of insurance); shield against legal liability; etc. These common activities will either be reinvented each time they are performed or each time a new employee is

hired, or a set of documented procedures should be developed to identify the most efficient manner of doing them. That set of written instructions, guidelines, checklists, software, data, etc., is the structural intellectual capital. Logging and recording 'lessons learned' can become an incredibly valuable asset that permits business to enjoy an extraordinarily high profit margin.

The challenge for a small business is that employees and owners are so busy performing those chores that they never get around to documenting their intellectual capital. As a result, when they are ready to sell their business, they generally only receive the real estate value and a small amount for old equipment and inventory. Interestingly, if they cannot manage to document and offer to transfer their structural intellectual capital to prospective new owners, including vital knowledge about customers and relationships, effective marketing methods, and business processes, the limited amount of money that they receive in a liquidation-type sale is probably too much for a buyer to pay.

The process of developing "training" systems for each business activity can itself offer new insights into the business. Years ago, a firm that sold

motivational tapes decided to invest some time and energy into documenting all phases of their business. When they were done, they realized that they enjoyed a significant market share of motivational tapes, which spoke to limited growth potential in that area. They also discovered that their core competency was fulfillment - taking orders by phone (and later by web) and shipping them out. This insight led them to develop (i.e., innovate by changing their market focus in association with that core competency) an even larger company by offering fulfillment services!

In advancing towards the development of a "systems" approach one must brief employees on this phase and its critical importance relative to achieving the desired final result: a more innovative firm. Rather than measuring the number of tasks performed, the objective of this step is to identify problems that have not been addressed and to come up with strategies, policies and actions to deal with them. The reward for the employees is that as profitability improves, their opportunities for advancement, recognition, and yes, compensation will also improve. (Knowing that people are motivated by psychological rewards, often observable through organizational symbolism, one could create more

immediate recognition, such as certificates or a small prize for each submitted problem, with or without a proposed solution). Employees should understand that this is a compensated effort that has a budget of time and expense. "Overworked" employees may well complain that adding more chores will interfere with their "real" job. The response should be that the process of developing systems will be to improve working conditions, which does in fact benefit everyone.

Rather than looking for radical "innovations," it may be more productive to look for incremental changes, refinements or improvements. Examples include: a dental office decided to create two waiting areas: one for adults and one

equipped for toys for children and their parents. Another example was a firm that decided to automatically scan incoming customer letters and sending the scanned file by email for action. Their old manual system often resulted in letters being lost and no follow up on customer inquiries.

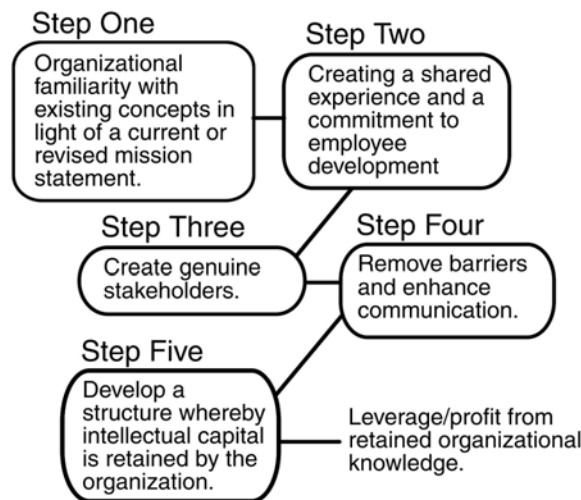
### **A Model Framework for Creativity and Innovation**

The creation of a framework with which to inspire a culture that nurtures innovative thinking within small businesses may be viewed as having both extrinsic and intrinsic implications for the small business. The application of this proposed framework may excite employees as they

experience the affect of empowerment that the process of innovation provides. Certainly the process entailed in using this framework within a small business creates a common experience for all employees that may help to bond them into a more effective team.

Being given permission to constructively criticize with those criticisms being used to redefine tasks and responsibilities may contribute to better communication within the small business and perhaps to better morale. The framework works internally to "capture" through documentation and systems designs the intellectual capital of the business (see Model 2).

**Model 2  
A Model Framework for Creativity and Innovation**



**Conclusion: So What?**

The authors of this article have introduced a framework for injecting innovation into small businesses. We have introduced a five-step process that is actionable relative to the small firm's typical circumstances, which usually entail limited financial resources. This framework, in turn, provides a practical means for small firms to capture and leverage the knowledge that they create. There is an abundance of strategies and techniques for improving individual creativity as well as providers of corporate education and training programs on innovation.

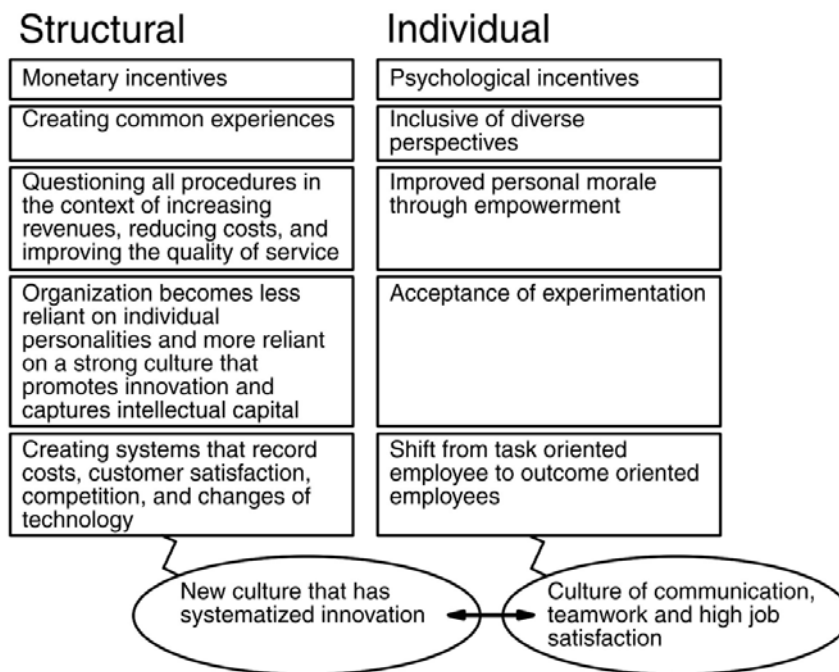
This framework is designed to place these strategies and techniques into a context that is useful to a small business owner. Figure 1 summarizes some of the potential outcomes of using this framework to inject innovation into a smaller enterprise.

The framework we have proposed extends traditional interpretations of intellectual capital, which are generally associated with legally protected assets such as patent holdings, trademarks and other rights. Essentially, this framework creates a systems-dependent structure instead of a people-dependent structure.

Accounting practices often do value intangibles such as "good will" and "existing relationships," to the extent that these can be estimated; however, a structure that captures processes and organizational learning over time suggests a more robust approach: the framework allows a small business to capture and leverage its knowledge, purposefully.

Capturing intellectual capital should enhance the valuation of small businesses by providing examples of how it has successfully increased sales, or how it has failed to do so when attempting to use marketing methods which would presumably not be

**Figure 1  
Structural and Individual Implications of the  
Application of the Framework for Innovation**



repeated on future occasions. This also suggests the capacity for demonstrating the means by which a small business has employed processes that have led to increasing profitability. Even when profitability and sales are not enhanced, the trapping of experience in what doesn't work has value. Finally, the framework provides a way to build a real management team with an orientation toward innovation, itself, that is proactive and deterministic.

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