WHAT DO INNOVATORS DO TO SUCCEED?
A CASE STUDY OF SAGE PLC

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ABSTRACT
What do innovators do in their efforts to succeed? Successful innovation is embedded and leveraged by the management strategy. Sage plc, the third largest management software company in the world, is analysed. Various factors are seen to foster an innovation culture at Sage: an open organizational culture, a responsive market orientation coupled with a proactive market orientation, an international expansion strategy according to a multi-domestic orientation, and a horizontal internal communication policy. Sage Portugal was visited and its CEO interviewed, several times, in-depth. Sage Portugal Nº2 was also interviewed. Company documents, reports, newsletters, Internet site and Intranet were also analysed.

INTRODUCTION
Innovativeness is an important path to performance
Some academics refer that organizational structure, strategy, as well as innovativeness are linked with performance (Capon *et al.*, 1992) and suggest that a company must innovate to gain a competitive advantage, whether it be to survive or grow (Deshpandé and Farley, 1999).
"Because it is its purpose to create a customer, any business enterprise has two – and only these two – basic functions: marketing and innovation. They are the entrepreneurial functions." (Drucker, 1954, p.37).
Innovation is not confined to engineering, manufacturing or research but rather it extends across all parts of a business.
Based on 4,938 innovations, Edwards and Gordon (1984) classified innovations according to levels of significance: 1) innovations that establish an entirely new category of product, 2) innovations that are the first of their type on the market in an already existing product category, 3) innovations that represent a big improvement in existing technology, and 4) innovations that are a modest improvement designed to update an existing product.
According to Lambin (2000, p.458) "a true innovation is a product, a service, a concept, which introduces a new solution to the problem of the buyer". Contradictory competing preceding solutions may be resolved but a new functionality is introduced,

also. Thus Lambin (ibid.) puts forth four criteria to classify innovations: “1) the degree of novelty for the company; 2) the intrinsic nature of the innovation; 3) the origin of the innovation; 4) the degree of novelty of the concept.”
“Surprisingly little has been established in the economics literature to identify those conditions and market environments that are conducive to innovation activity and those conditions that retard it.” (Acs and Audretsch, 1990, p.37).
Innovative output may well be influenced by the amount of R&D expenditures and the extent to which appropriation of economic rents accruing from innovation can occur (Acs and Audretsch, 1990).
Knowledge is possibly the most important input into the production of innovations (Winter, 1984).

DISRUPTIVE INNOVATION

Financial markets relentlessly pressure executives to grow ever faster – one may talk of a growth imperative. The problem for managers who seek growth, however, is that the sought after growth markets of tomorrow are still small today.
Is innovation a predictable process that delivers continued and profitable growth?
Christensen (1997) identified two distinct categories of innovation - sustaining and disruptive - based on the differing circumstances of innovation. In sustaining circumstances the innovator is occupied with the making of better products that can be sold for more money to attractive customers. In this case incumbents almost always win. In disruptive circumstances the challenge is to sell a simpler, more convenient product that sells for a cheaper price, thus appealing to a new or apparently unattractive customer segment. In this case the entrants are likely to beat the incumbents. Christensen (1997) goes on to say that the best way for upstarts to attack established competitors is through disruption. Successful new-growth builders should shape their strategies so that they enter a disruptive race they can win – disruptive strategies greatly increase the odds of success in the marketplace.
All markets have a rate of improvement that customers can utilize. For example, automobiles have ever improved engines however we can’t utilize them fully due to excessive traffic on roads, imposed speed limits and safety concerns. Some customers may never be satisfied with the best that is available, other customer segments may be over satisfied with very little. Sustaining innovation targets demanding, high-end customers with better performance than what was previously available. Examples are incremental annual improvements in the software industry which most good software companies are capable of producing. Other sustaining innovations are real breakthroughs. Established competitors tend to win such sustaining technology battles as they are motivated to do so for their best customers. Disruptive innovations are quite different. They disrupt by introducing simpler, more convenient and cheaper products that have appeal for new or less-demanding customers. Disruptive products gain entry in new or low-end markets, where the improvement cycle begins (Christensen and Raynor, 2003).
Note that a decade after the first publication appeared on disruptive innovation large and small companies alike are still struggling to put the ideas in practice to produce high-potential disruptive-growth businesses (Anthony and Christensen, 2005).
Guidelines for disruption exist (INNOSIGHT, 2005):

1) Understand what jobs customers are trying to get done and make them simpler and easier.

2) Start simple with easy to satisfy customers. Improve incrementally.
3) Take a market perspective and consider existing competitors' perspectives. Is our approach really disruptive?
4) Test and adapt. Test key assumptions and adapt the strategy accordingly.

We believe Sage plc to be such a company, which is now moving towards more demanding customers, other than SMEs (small and medium enterprises), their traditional market, which they conquered as an entrant.

THE SAGE GROUP PLC

The text in this part of the article was based on interviews gathered during visits to Sage Portugal. Sage Portugal CEO, Jorge Santos Carneiro, was interviewed several times, the last of which in the presence of Sage Portugal Nº2, Maria Antonia Costa (financial director and director of control and management – encompassing human resource management, logistics, administrative aspects, and internal systems), who also contributed with information. Company documentation provided was also analyzed, as was the company web site, Intranet and company e-newsletters.

Sage main principles are: Simplicity, Agility, Integrity, Trust, and Innovation.

A PRESENTATION OF SAGE

Sage is the third largest software company in the World, after SAP and Oracle. 15% of their sales are re-invested in innovation every year; 7% of their sales are re-invested in marketing every year. In 2006 Sage invested 1,000 million Euros in acquisitions, its chosen strategic path of growth. Sage is the only information technology company in the FTSE 100 stock market (the 100 largest companies listed on the London Stock Exchange).

Sage is a leading supplier of business management software and services to 5.2 million customers worldwide. From small start-ups to larger organizations, they make it easier for companies to manage their business processes. Their purpose is to help their customers run their businesses more effectively, helping them to gain greater insight into their business activities and providing them with lasting benefits by automating their business processes.

The Sage Group plc comprises market-leading businesses throughout the World (UK and Republic of Ireland, mainland Europe, Africa, Australia, Asia, the Middle East, and North America) supplying business management software and related products and services to the small and medium sized business community.

Financial insight: Sage annual earnings per share for 2006 were 20%, which is very good, up from 11%, in 2002, and with a continuous increase over the last 5 years to this figure.

The Sage earnings per share evolution has been very consistent, going up steadily since June 1996 – very different from another listed IT competitor MISYS, for example, or from Logica CMG, or iSOFT, which have had many ups and downs.

INTERNAL COMMUNICATION POLICY

Sage plc has two electronic newsletters – one called View and another called Open. Both are periodic worldwide publications for Sage employees.

The Sage group has a powerful Intranet platform called eTeam that assures knowledge sharing within the company. Everything of interest is published on eTeam. For example, within eTeam there are thousands of projects. Information is segmented

by country: mainland Europe, North America, Australia, South Africa, UK, Ireland. Numerous presentations that occurred worldwide are stored on this platform, for those who were not present to read. The Group CEO authored a financial review available for employees to see.
These tools mentioned above are very important to Sage.

SAGE PORTUGAL

Sage Portugal, with whom we had contact, has 120 people of whom 30 are devoted to innovation. There are a further 10 people in marketing. With a wide offer of solutions for accounting, payroll & HR, CRM, Web, Sage Portugal (Sage has now been in Portugal for the last seven years) is the leading supplier of business software solutions in the Portuguese market with over 80.000 enterprise customers. Major brands are SP for the entry-level market, Infologia 50, Next, Line 100 and Gestexper for the SME segment and Adonix for the mid market. Sage Construcao is the solution for the construction market. GESPOS is the product for the point of sales market. Sage Portugal has a strong presence among the accountants community.

REGIONAL EMPOWERMENT

Regional heads are given total authority to deal with employees and customers. If there is a Portuguese customer complaint that is sent to England, to the head office, for example, it will be sent back to Portugal for the CEO of Portugal to resolve. The same applies for employee grievances. For better or for worse, the country head must be dealt with directly. There aren't any other avenues open. The Director for Europe will send back down to the Portuguese CEO any communication or grievances from Portugal. This policy creates a climate of confidence and creativity which is propitious to innovation. We shall see, also, below, how regional CEOs have the authority to decide concerning acquisitions. A recent example involves a prospected acquisition who wanted to sell to the headquarters in England rather than negotiate with the Portuguese head but this was clearly not allowed. Last year alone (2006) Sage Portugal made three acquisitions. All acquisitions are then merged into one Sage Portugal. Previous owners of acquired companies tend to stay with Sage after the acquisitions, which is a very interesting detail of the Sage culture. The previous owners of companies will then report to the country level CEO who negotiated the acquisition with them. More about this is said in the next section below.

SAGE PLC – INTERNATIONAL GROWTH THROUGH ACQUISITION
Theoretical foundations

Hereafter we present some theoretical highlights for the justification of Sage's international growth strategy. An international development strategy via acquisitions may favour innovation. Cox (1991) believes that increasing cultural heterogeneity leads to greater creativity and innovation. Also, "domestically based firms can benefit from product development abroad without research expense through technical feedback arrangements" (Jain, 1993, p.40). It may be a mistake to think that the *brainsware* in a company can be centralised and it may be an opportunity to benefit from the decentralisation of ideas, namely for innovation.
"Following Ghoshal (1987) Morosini *et al.*, (1998, p.140) state that "acquisitions across national cultures could enhance firm performance by providing access to a valuable pool of critical routines and repertoires previously not available to the firm."

These same authors, Morosini *et al.* (1998), consider that among these routines and repertoires are, among others, R&D procedures and procedures for scanning the competitive environment. Further, Gian Mario Rossignolo, former chairman of Electrolux-Zanussi (cited by Morosini *et al.*, 1998), stated that “one fundamental reason for Electrolux to acquire Zanussi is that people skills were sufficiently complementary in marketing and product design.”

The role of corporate culture

The dominant corporate culture type has an important influence on issues like creativity, entrepreneurship and innovation e.g. particularly adhocracies (vs. clans, hierarchies and markets), foster these characteristics (Deshpandé *et al.*, 1993). Further, following the Quinn (1988) classification of organizational culture, the entrepreneurial culture in particular (vs. competitive, bureaucratic or consensual cultures) emphasizes innovation and risk-taking.

By organizational culture we mean a “pattern of shared beliefs and values that help individuals understand an organization and provide them with norms for behaviour” (Deshpandé and Webster, 1989; Weick, 1985).

The role of international development strategy

“Innovation within the global firm may be impeded by cultural barriers.” (Gomez-Mejia and Palich, 1997). This constraint may not be so serious for a multi-domestic company considering its “sense that country markets are vastly different” operating on a “country-by-country basis” with different strategies for each country. Sage, being a multi-domestic company (with a local human resource management strategy, control mechanisms, acquisitions strategy, operational innovation fuelled locally, only the company financial and innovation results being centrally controlled), prevents, at least in part, the effects of these barriers.

The decentralised growth and development strategy is thought to be key.

The Sage international strategy

In Jorge Carneiro’s words, CEO of Sage Portugal: “Sage is an English company with its head office in Newcastle, where it started. Sage decided to make acquisitions, the first was in France, after which it went to the stock market, in 1989”. “In 1999 Sage entered into the FTSE 100, comprising the 100 largest listed companies in London; Sage is the only IT company there.” (Maria Antonia Costa). Sage managed to generate financial conditions, by going to the stock market, to buy other companies; companies of some considerable dimension.

Acquisitions during 2006 - money invested – 1,000 million Euros (acquiring SMEs worldwide) – with dozens of Sage acquisitions, in total, over the last ten years; in the UK, in the USA, in Continental Europe, in Asia and in South Africa.

Instead of doing the normal process, that is, to have a product, translate the product, localise the product, put the product on sale in different countries, then invest in advertising and marketing, they thought it was more interesting to buy a company with a good market share in a country… As they had the conditions to do this they did it, but with very special care, maintaining the identity of the purchased company… The company just bought didn’t become Sage. The difference in perspective is noticeable: one thing would be to take a product, which is a big temptation, as the product exists, just localise it, translate it, create a company in the country for the

internationalisation, invest in marketing, gain notoriety, and then slowly start… this is a very tough battle as you are competing with local national companies, in that country, with significant market shares, companies that are in the market, and with a success record, so you may have success but for you to achieve that success you will have to wait a long time, and you may not have success, in the middle of all of this. Sage is in nineteen different countries now, and has always followed the same pattern: arrive in a country, buy a market-leader or a co-market-leader, stable, growing, and after buying that company, give it a lot of autonomy, showing a clear big bet in the human resources in the given country. There are no reasons for a company that is doing well and is growing just due to the fact that it was bought up, for it to suddenly stop doing well. Also there are no apparent reasons for the company to start to do better just because it was bought up. What there is is a strategy which will allow that company to pursue the strategy of Sage, which is then to buy other companies in that country. For then you will start to take advantage of *your* dimension.
The first purchase was Ciel, in France. It is still Ciel, as it is a credible, well-known and successful brand. Then Sage bought Saari, another market-leader in a different segment, then it bought Sybel, then it bought many another companies in France. Now, the essential question – who decided which company to buy next, in France? It was the CEO for France, who is French.
Summing up - Sage first comes into a country by buying a company; then, by empowering the local head, it is guaranteeing that the person who is responsible for the country has the conditions and the autonomy to be responsible for the decisions that he/ she is going to make. What is in question is the quality of his/ her management, his/ her performance is in question. When you have one local buying a company from another local at the outset you have a level of communication which is easier, then there are no cultural differences. A local manager buying a company which he has to manage has to be worried about a set of things which are going to be essential in the near future. If a foreign CEO were in charge there, the team could actually react badly to the CEO, and even leave the company. Meanwhile, the company would have lost time, credibility, market share, and the margin and sales would have gone down,
Note that in Portugal the acquisitions Sage made were proposed by the Portuguese CEO. All of them.
Summing up - maintaining procedures and processes after acquisitions may foster creativity. A growth strategy through acquisition, giving freedom to manage and decide at the regional level, bottom-up, with de-centralised decision-making and empowerment, may fuel creativity and lead to greater innovation.

MARKET ORIENTATION AND INNOVATION

Theoretical foundations

Although opinions and feedback from significant customers are very important in so far as they add to the credibility of claims that an idea has potential (Christensen and Raynor, 2003), success must be achieved by a trade-off between a production orientation and internal quality management, guided by marketing myopia I (looking only to the product) and a marketing orientation and external quality management guided by marketing myopia II (looking only to the market and to what clients think they need) (Gummesson, 1998). This means that a firm must take care not to over-emphasize a marketing orientation which can lead to poor innovation performance.

Day (1994) defined market orientation as a superior aptitude to understand and satisfy clients' needs. A market orientation can also be defined as a set of behaviours, activities and cultural norms which focus on clients, competitors and inter-functional coordination (Brown, Mowen, Donavan and Licata, 2002). One of the conceptions of market orientation views it as an organizational culture, thus not easy or inexpensive to maintain, develop and tailor in function of each customer relationship (Slater and Narver, 1994). Kohli and Jaworski (1990) define market orientation as a set of activities, processes and behaviours resulting from the implementation of the marketing concept. Deshpandé and Farley (1998) refer to market orientation as a culture of orientation to the market as a factor which creates a structure which leads to behaviours directed to superior value creation for customers which lead to superior performance. Some academics argue that a market orientation can diminish innovation. Others argue that a market orientation involves predicting and so it should lead to the development of disruptive innovation. Atuahene-Gima, Slater and Olson present a third perspective: market orientation can be a dual concept being responsive and proactive at the same time.

A proactive market orientation definition (Slater and Narver, 1998): a market orientation that leads clients instead of really answering them.

A responsive market orientation definition (Kohle and Jaworski, 1990; Narver and Slater, 1990; Deshpandé and Farley, 1998): the main meaning of a market orientation is to identify the needs of target clients and satisfy those needs so as to create superior value for clients and superior performance for the salesperson.

THE SAGE INNOVATION PROCESS

In 2002 Sage spent 58.1 million Great Britain Pounds in R&D. In 2006 Sage's expenditure in R&D grew to 95.6 million GBP (150 million Euros, or 15% of total sales of the Sage group).

"Innovation with software is reasonably easy", says Sage Portugal CEO, Jorge Carneiro, "as customer and distributor feedback helps immensely in that area. Customer and distributor suggestions are listened to and evaluated and then are implemented."

"We also benchmark quite frequently, analyse competitors' products, see how they are made, see if they are interesting, and copy features and products, we also do that", continued interviewee Jorge Carneiro, "Product innovation isn't that difficult, the process of innovation is pretty well set up here, unless we are talking not of continuous improvement innovation but of radical innovation… There things are different, the "music" is different. Within the Sage Group an annual meeting takes place where everybody, worldwide, submits projects which we consider to be innovative. These projects are basically divided into four big areas considered innovative:

1) New products and services (new products and services and enhancements to existing products and services)
2) Channel, sales and customer management (new initiatives and services targeted at supporting BPs, direct sales and customer relationships)
3) Internal innovation (changes to internal Sage processes and management to deliver improved performance)
4) Best failure (ideas that have taken time to succeed and may even have been judged to be a failure initially)."

In a report about this annual meeting, sent to the whole Sage Group, named simply "Innovation Awards" (the writing of which was the responsibility of Group Business Development), one may see that the response to the innovation awards, across the whole of Sage, was outstanding, with dozens of entries received, in 2006 (up 50% from the previous year). The UK, North America, France, Germany, Spain, the Southern Hemisphere, Switzerland, Portugal, Ireland and Poland all contributed with candidate innovation projects. Given also the very high standard of the entries the annual meeting for 2006 was transformed into a Sage Innovation Expo. The aim of this meeting is to recognise innovation but also to encourage the sharing of ideas across the whole of Sage. The conference is truly a leadership conference. Copies of the full entries for all the innovations featured are available on request and indeed are made available on eTeam, the Sage Group Intranet platform, after the meeting ends. Winners receive awards at a gala dinner and the awards in this latest edition were presented by strategic innovation expert Vijay Govindarajan.

"We all have access to each of these projects. So, today, before thinking of innovating, I start by using my access to all of this innovation that Sage has generated in all of the different countries all over the World. Thus we have synergies, best practices, within the Group, which we use. We have a very interesting way to innovate because I can innovate a great deal, here, in Portugal, disruptively, with projects that I bring in from another country where Sage is; duly tested, duly described and analysed, so the advantage is enormous. Of course, on the other hand, I also have to contribute to these innovation awards. The awards allow for another type of innovation… We have a team based in various countries, too, people from various regions cooperating to produce innovation for the group, a group of our colleagues who work together with a sole objective which is to develop new technologies which will allow our solutions to evolve, in all of the different countries in the World. An international team which I suppose you could call R&D… We also have an R&D department in each country; in Portugal, also, 30 of our 120 people are in R&D, but we also have this additional international team, operating above any country's efforts, thinking of Microsoft, SAP, and Oracle solutions, thinking of Google's efforts and of many others and seeing what we should do and thinking of solutions that will lead to the evolution of our products and services. This international team is operating on a different level, more forward-looking, more on the edge, if you like." (Jorge Carneiro, CEO, Sage Portugal).

Sage products are mature, not especially innovative in themselves, despite using innovative technology. Products are being constantly changed, for example, with the launching of Windows Vista, Sage products have to be made compatible to work within this new platform. There are constant alterations that are necessary. Difficulties don't arise here but during key breakthroughs – for example, when the change occurred from MS-DOS to Windows, which involved a profound alteration of processes. The Sage software ran on DOS and it had to change to run on Windows.

Creating a new product is a different type of project, it's not something always being done, improvements which are followed by still more improvements are continuously performed though. Sage products are continuously improved on, not only for the correction of small defects but also by introducing new alterations to them. Products are sold, e.g. Sage 2007, for a given year, and include all improvements for the year.

Concluding we can say that Sage has a market orientation, both responsive and proactive; by listening to the market, encouraging and rewarding creativity, anywhere

where it may arise, and internal innovation, Sage introduces innovations pulled by the market and others pushed from the company's R&D departments.

THE SAGE PORTUGAL STRUCTURE FOR INNOVATION

Sage Portugal has 30 people in R&D (25% of the total team) as products sold in Portugal are "home-made" by Sage Portugal. Sage Portugal also has a management and control team, sales, marketing, services, the latter including hot line (through which Sage Portugal receives client feedback across the telephone), professional services (a consultant team who visits clients for implementations or improvements) and training (for distributors and users, another source of feedback to Sage). Customer feedback through the three aforementioned channels is essential to Sage, some feedback occurring across the telephone, other feedback being given in person (during consultant visits or during training sessions). R&D receives the customer information, oftentimes already processed, which it then analyses and implements. At the same time R&D is researching the technological development that the solution should have. This has to do with the platform that is being used by Sage. The data base used is also relevant.

Sage Portugal directors Jorge Carneiro and Maria Antonia Costa both spoke, also, during our interviews, of breaking into new markets, for example small companies and accountants who do not yet use management software but who may in the future. These are prime company targets, as there is no competition for these prospects, yet, as they do not buy from anyone at present. In further research we may seek to deepen this concept further but it may be interesting to note now, however, that Christensen and Raynor (2003) speak of three approaches to creating new-growth business:

1) Sustaining innovations (aimed at attractive, profitable, albeit demanding customers, "willing to pay for improved performance" (ibid., p.51));
2) Low-end disruptions (aimed at the low end of the mainstream market, over served customers who look to discount-priced products and services);
3) New-market disruptions (which targets non-consumption – prospects "who historically lacked the money or skill to buy and use the product" (ibid.)).

New-market disruptions are thus also targeted by Sage under their current strategic model. INNOSIGHT's (2005, p.73-4) Opportunity-Screening Tool provides us with three groups of questions to better understand the type of innovation we are dealing with. The appropriate strategy can then be chosen for any given opportunity.

Figure 1, below, portrays how Sage plc manages to create an innovation culture.

CONCLUSION

We have attempted to shed light on the question: "What do innovators do in their efforts to succeed?" To fulfil this purpose we analysed the case of Sage, plc, the third largest management software company in the World.

It is our belief that Sage plc portrays much of what a disruptive innovation strategy (Christensen and Raynor, 2003) aims to be. Sage went to the London stock market to attain the financial capability to pursue its strategy of growth through acquisitions. Starting in the lower-end software market for small and medium businesses, Sage is now moving towards more attractive customers and thus competing with SAP and Oracle, the two largest management software companies in the World, after acquiring companies such as Adonix, owner of a recognised ERP (enterprise resource planning) technology.

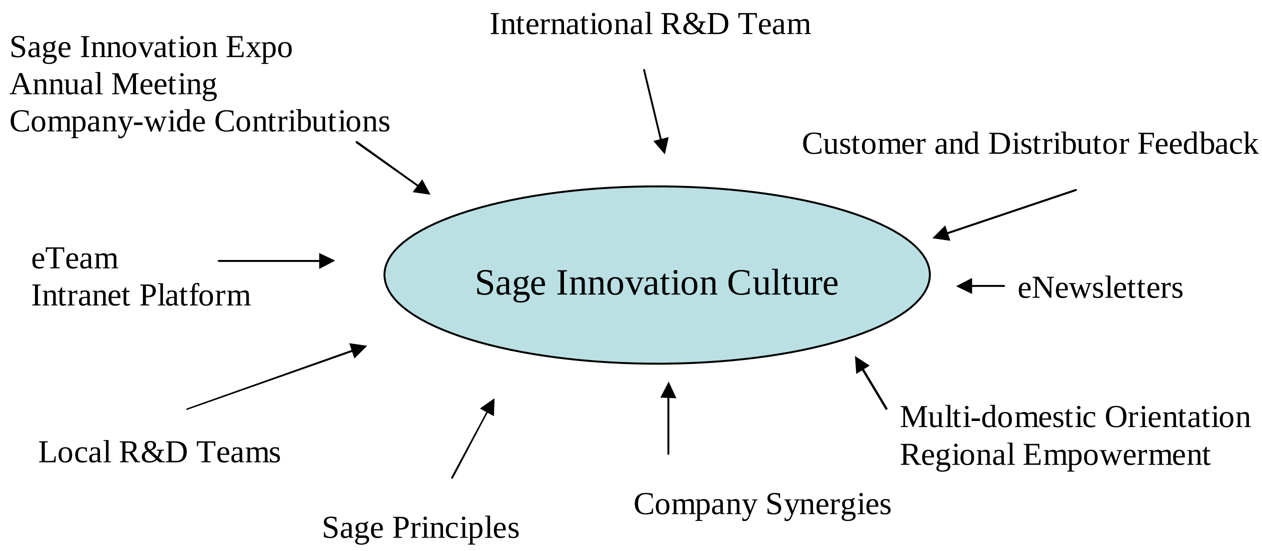

Figure 1 – The creation of a Sage Innovation Culture

The interviews of the Sage Portugal directors permitted us to identify various factors which foster an innovation culture:
• An open organizational culture, oriented to the exterior, encouraging diversity and rewarding creativity;
• A responsive market orientation based on information gathering from the actors in the market and by providing an adequate response to their needs, coupled with a proactive market orientation, through the internal generation of innovation in specific centres created for that purpose;
• An international expansion strategy according to a multi-domestic orientation, conducive to extracting the best of each culture, promoting well-being and allowing for rapid and effective market knowledge, accompanied by an effective decentralization of power;
• A horizontal internal communication policy allowing all to access and to implement the innovations originated from numerous origins.
From selling IT solutions for 150 Euros to 150,000 Euros, to small and medium companies, Sage has progressed and expanded its products and services upwards and now competes for much larger half a million Euro contracts, also. It will be interesting to see where Sage plc progresses to, in the future, as the Sage Group takes innovation seriously; by fostering an innovation culture through company newsletters, innovation awards, company-wide and local R&D initiatives and customer and distributor feedback, which is analysed thoroughly and then implemented in Sage products and services.

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