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Fil. Dr. Jan-U. Sandal Institute, Norway

INNOVATION AND SOCIAL ENTREPRENEURSHIP IN SMES: KEY TO ECONOMIC GROWTH AND ENTREPRENEURSHIP DEVELOPMENT

The role of small and medium enterprises (SMEs) in the economy of Nepal stands huge. Despite an outstanding role of SMEs in the economy in terms of employment and entrepreneurship development, still there are some skeptical expectations regarding their sustainability in the long run for the maintenance of people's livelihood. Innovation management and spirit of social entrepreneurship move in line with optimistic approach to economic development, attempting to dispel doubts. With increased importance of SMEs in developing and least developed countries for sound economic growth rate, entrepreneurs should take timely decisions to keep pace with global changes and challenges. It must lead to revolutionizing of the sector and replacing obsolete patterns with innovative ones through 'creative destruction'.

Key words: SMEs, innovation, social entrepreneurship, creative destruction, economic development.

Introduction

Innovation implies that one is able to do something new that was not done previously by others. It can be also termed that if someone has done something efficiently or economically, that is also called an innovation. Emphasizing the dynamics in economies and industries, Schumpeter points to entrepreneurs carrying out 'new combinations'.

Innovation concept has been considered as an important component in economics along with the concept of invention after identifying innovation as the essential function of the entrepreneur. Innovation is possible from which invention can be identified while invention does not induce innovation, and produces on its own, and it does not give any economically relevant effect at all (Ruttan, 1959).

Innovation is defined as "the implementation of a new or significantly improved product (good or service), or a process, new methods in marketing, new organizational method, new business practices and external relations. Innovation is something that is completely new using various processes, practices and replaces the one that was seen earlier. It is not necessary that innovation should involve technology or management innovation. It can be the invention and implementation of a management practice, process, structure, or technique that becomes new to the state of the art and is intended for further organizational goals. It can be measured in either process or outcome terms (Ville, et.al. 2014).

An innovation is the enforcement of a new or improved product (a good or a service) with respect to its characteristics or intended uses, or process with respect to production or delivery methods. Moreover, it is a new or highly improved marketing method with respect to product design, packaging, placement, promotion or pricing, or a new or improved organizational method with respect to business practices, among others. It is stated that innovation activities are all scientific, technological, commercial and administrative improvements in the firm's products, processes, marketing that ultimately

lead to generation of a competitive advantage. This kind of enhanced scope of innovation activities seems relevant when considering innovation behavior in SMEs (Chereau, 2014).

An innovation is not something that is straightforwardly created, which is the promotion of invention, after it has been proved successful in either economic or other terms. Any concept of innovation is fundamentally based on the measure of its successful implementation that is used in business, economy or management research (Ville, et.al. 2014).

According to an economist Joseph Schumpeter (1912), the person who made his own theory explaining innovation back in 1912, it is termed that a spontaneous change in the production function occurs and established patterns of production alter. "New and more efficient ways of production opens new markets and changes the rules of competition. Companies, which are incapable of changing their ways of production, will come to an end. New job ability is only one of the fruits of creative destruction" (Schumpeter, 1942).

Impact of innovation varies from country to country, and in institutional perspectives, it dwells with different levels of economic development. In the country like Nepal, where small firms are gradually moving towards expanding, the businesses can get boosted through innovations for their growth in an increased way. "But in developing countries, Szirmai states, personnel in the firms do master the process for production and designing of goods and services they want to offer, that comes only from innovation as it involves creativity and modifications in the production processes" (Szirmai, et.al, 2011).

Innovation plays a role as a source of competitive advantage, and firms' strategy profile should be primary contingency, as innovation strategy should fit into competitive strategy to reap maximum benefits from innovation. It has been stated that firm level innovation focuses on sizes, R

and D, staff capacity, networking as there is hardly a study done competitive strategy as determinants of innovation. However, empirical research has justified that strategy and innovation attributes co-activate and interrelated, and move towards fit as a source of sustainable performance (Chereau, 2014).

Innovation is the mechanism that demonstrates the behaviors relating to the activities in introducing new processes, new products, new marketing or new organizational methods, or combinations of such into the organization including the source of these activities. Innovation is anchored for development from technological point of view or exploiting market opportunities. (Chereau, 2014)

Innovation is also a specific tool for entrepreneurs with which entrepreneurs can exploit change for opportunity for different businesses. Entrepreneurs look for the opportunities to implement successfully the innovations produced through continuous learning and practice. (Drucker, 1993)

According to Peter F. Drucker (1993), a person who creates ventures, new products and services, along with small businesses on his own is called an entrepreneur in the USA. Though there are very small businesses created in the USA, they all are not entrepreneurial or representing entrepreneurship. If a husband and wife open a business or store of similar nature in different locations other than the previous one, it cannot be considered as entrepreneurship though it is a new venture as that sort of work has already been done by other people for many years. Entrepreneurship comes if the product like the McDonald's are advanced with new management concepts and techniques adding value on it and made the products standardized to cater the needs of customers with new approach for new customers, according to Peter F. Drucker (1993). In his opinion, entrepreneurship is enormously risky as the entrepreneurs want to see changes when looking for new opportunities with innovation. Entrepreneurship becomes risky if entrepreneurs do not know the methodology as they violate well-known rules, which is particularly the case in high-tech enterprises. Therefore, what is required is a purposeful innovation being systematic and manage properly for successful entrepreneurship development.

In traditional approach, innovation is a process within an organization aimed at gaining competitive advantage in the market place. Since recent years, formal and informal entrepreneurial networks are considered as a factor for successful innovative entrepreneurship. It should be noted that increasing mobility of skilled workers, rapid internet based knowledge networks and advanced scope of external suppliers have diminished the effectiveness of a

traditional innovation system. External channels are critical to commercialize ideas through the adoption of open innovation (Lahi and Elenurm, 2014).

Social innovation has been recognized as one of the processes that helps to address world's most pressing challenges with 'novel solutions' which can be better than existing ones, benefits the society as a whole, not a single entity alone. As social problems are intractable, the process is needed to address the needs to be driven through the collaboration of people across different industries, disciplines, and regions (Bates, 2012).

Innovation in SMEs

Innovation is more critical for the country like Nepal as it is a crucial sector for the survival of economy due to its coverage (employment and contribution to GDP), and it is also a risk to sustain small and medium enterprises with low risk. When it comes to applying innovative idea in SMEs, it requires strong decisions and resources, which is difficult for SMEs. According to Schumpeter, SMEs play critical role to revolutionize industrial sector for sustainability replacing the old innovations, which can only be performed through 'Creative Destruction' (Schumpeter, 1942).

In already existing establishments, if changes are made for creating wealth along with values, applying new methods of production, then it can be supportive to boost enterprises for economic growth that creates both jobs and returns. Innovation can also be defined as economic or social term, not only technical, as it is practiced to fulfill the requirements of consumers as per the changing needs.

Nepal has not been able to practice innovation in the existing establishments like SMEs. It needs more capital and new ideas for revamping which will ultimately lead to expanding operations as well as capacity strengthening of the workforce. Once the people are capacitated, they can really use their skills for operating businesses in an innovative way that helps in increasing sales and profits that can further be supported for advancing entrepreneurship development.

Information and knowledge are critical components to innovate as these are used in value creation process, which can be very useful in SMEs to develop knowledge-capital and expand the companies. It seems that SMEs' efforts in building the strong knowledge capital are weak. If capitalized effectively, they would support developing their firms' productivity with innovation networks (Laperche, et.al. 2013).

Smaller enterprises are often more flexible to discover new business opportunities, and that could be an advantage for the innovation process management that utilizes radically new ideas. It has been found that very few enterprises hold capacity to

manage the whole innovation process by themselves. What they need is innovation partnership with other enterprises. Encouraging SMEs could be a key factor for development of the economy on local regional and national level (Lahi and Elenurm, 2014).

Innovation comes when new products are developed and diversification takes place. The entrepreneurs who are in the SME sector have to take risks to survive by introducing innovations, as they frequently lack required capital and skills. Practicing innovations are to improve business environment, which can only be achieved through systematic approach.

In the case of Nepal, 4,960 ventures are SMEs that account for about 88% of the total industries in the country. Moving forward to the employment aspect, SME field provides a total of 370,512 jobs, which comes out to be 77% of the total employment provided by the industries as a whole. Hence, it is a fact that SMEs play a major role in the Nepalese economy, and the value chain they create cannot be ignored. Now the question arises here: do such SMEs adopt innovations and move effectively in entrepreneurship development? Do the SMEs adopt the approach for sustaining their businesses with new products, processes and products with enhanced skills along with using new technologies? Research and development should be done systematically to know the market trends and expand the business through the introduction of new products and services. If done so, it eases entrepreneurial activities and contributes to sustainable approach of the SME sector.

As scientists and experts believe, innovations emerge as a critical tool for creating jobs, boosting business growth and competitiveness to address the concerns and challenges of the society. Today's innovation is not limited to the labs, rather it is becoming an interaction among innovation actors as firms, the public sector, academic sphere and society through workable systems (Journal of Sustainable Development, 2016).

SMEs create a dense innovation network along with different enterprises and research centers for sharing knowledge and skills; provide services to customers to make them loyal. In Iran, there is over 95 per cent of SMEs which lack developing strategy based on existing industrial structure; therefore their contribution is less and found weak in value creation. This has further necessitated such SMEs towards business clusters and innovation through homogenous cooperating (Kamalian, et.al. 2015).

Even the Chambers of commerce are not clear in view of the SME sector's enhancement, though the contribution of SME sector is huge to the national economy, job creation and creating entrepreneurs.

SMEs can be a potential sector to create entrepreneurs who can come up with innovative idea and spread out to the interested/or on their own to be an entrepreneur. These SMEs just look for state's encouragement in terms of removing barriers, which can be non-tariff or other regulatory ones. People who are engaged in SMEs need some sort of innovation, which involves challenges as well to produce quality products and export it to the international market.

SMEs in Europe represent about 99 per cent of the number of enterprises, 67 per cent of the number of persons employed and 58 per cent of value added. The question here is what affects the dual approaches of outside-in and inside-out forces on innovation for growth. Growth is taken in terms of increasing the number of SMEs, as they need turnover/sales for survival (Brink, 2014).

In the total GDP of Nepal, the contribution of SME stands over 90 per cent, according to Federation of Nepalese Cottage and Small Scale Industries (FNCSI). Critical policies surrounding the SME sector are the trade policies, Industrial Enterprises Act, 1992, Supply Policy 2012, FDI and Technology Transfer Act, Income Tax act, Value Added Tax, Customs Act, etc. However, the ministry of Commerce and the ministry of Industries seem to be unable to enforce enough when it comes to promotion of SMEs with required incentives.

Innovation has become a crucial factor for the sustenance of the SMEs as the survey has clearly indicated that identifying market niche and customers' needs turns out to be the most demanding source for innovation among the companies. Innovation has impact on profits and competitiveness along with synergies in micro firms. It is natural that when it comes to commercializing of a novel idea, challenges galore for establishing market credibility and acceptance due to lack of business experience (Oksanen, 2009).

Textile industries in the SME cluster in Pakistan have got an increase in their productivity through endogenous innovation which ultimately helped in boosting competitiveness internationally. The research has also clearly mentioned that it has been able to find significant insights for policy makers, practitioners, educators, and researchers into the socio-economy of agglomerated SMEs in the context of emerging economy (Islam, 2010).

Studies have shown that innovation has been the main source of productivity rise and wealth creation for centuries and it is also true that innovation provokes economic and political resistance. Political powers see the innovation as threat to their political power like in Russia and other countries during the time of industrial revolution. Even today, access to internet is restricted in China and some other

countries to secure political stability and protect those in power (Nooteboom and Stam, 2008).

Integrating new knowledge with the existing one such as products, processes or strategies might be useful, and there are a lot of individuals who are involved in that within an organization. It ultimately leads to discovering new ideas and exploring new opportunities that helps in aligning them with organizational goals and activities. Alternatively, organizational strategy would be adopted in a new way for advancement. Creating an idea and mobilizing it through the process at the organizational level would ultimately involve innovation, and involving of other people would acquire resources that help in value creation (Koryak, et.al. 2015).

For organizational growth in terms of sales and employment, successful new product innovation is critical. Later on it is practiced through acquisition of knowledge and ultimately gets applied in the creation of new products and services, including the application of customer intelligence and market requirements (Koryak, et.al 2015).

As per the experts, innovation is the result of one or a series of technology investments when it comes to product-based company, and investment added in it has supported to come out with the value of the features. The gains achieved with investment generate good performance with new feature which is communicated to the clients/customers that seems tangible (Prindible and Petrick, 2015).

Entrepreneurship is termed as a micro-driver of innovation and economic growth. The issue of entrepreneurship and innovation is found very important. According to Schumpeter (1934), entrepreneurs are the ones who carry out new combinations (innovations) and, as per his explanations, there are four roles in the process of innovation such as: the inventor, who invents a new idea; the entrepreneur who commercializes the new idea; the capitalist who provides the financial resources to the entrepreneur, and the manager who takes care of the routine day-to-day management. These roles are played by different persons as the entrepreneurship indicates a variety of entrepreneurial roles in economic change (Nooteboom and Stam, 2008).

It is stated clearly that innovation is an essential condition for entrepreneurship. If there are scientific opportunities, entrepreneur's opportunities can emerge and new solutions to the existing circumstances can be found in new contexts for better results of the efforts as it supports the economic growth. New firms are always useful for exploring new viability for innovations, whether they are small or big (Nooteboom and Stam, 2008).

Challenges and opportunities in SME sector

SMEs face peculiar challenges when it comes to innovation. The shortage of resources, complexity of scientific field, lack of updated information and excellence in scientific field are a few key challenges SMEs do face. It is also noted that open innovation increases transaction cost as SMEs have weak ties with other organizations. SME sector faces many challenges related to cultural and organizational issues in the context of increased external contacts such as venturing, customer involvement, external networking, research and development. In the developing countries, government agencies help in innovation to connect, communicate and collaborate with independent inventors and other organizations to initiate innovation practices. However, at the same time, it is also realized that R and D capacity and managerial competencies are two important and critical factors that drive innovation work (Hossain, 2015).

Lack of managerial and technical skills for SMEs is critical for their effectiveness, and they are found less active than larger firms are in open innovation because of organization, culture, and strategy. A study conducted by OECD stated that only 5-20 per cent of SMEs are found to be engaged in open innovation approach. It is also argued by some scholars that small SMEs can achieve huge benefits from open innovation than larger ones, thanks to their less bureaucracy, increased willingness to take risk and faster ability to react to the changing environments (Hossain, 2015).

Emergence of new technologies is risky for innovation when it comes to developing relationship of business and consumers in terms of services/products. Innovation and change are found inherently risky, which entails the need to seek new ways of applying them practically. It is very much needed to make realistic assessments of potential risks and benefits. It is quite challenging to manage innovation to minimize risk at a time of dealing with new concepts and new technologies, adopting management processes needed rather than prescriptive measures (IC.GC.CA, 1999).

Service based innovation for small and medium sized enterprises (SMEs) is a difficult task as small companies typically lack resources to research, invest and escape risky environment. However, some SMEs can achieve a high level of growth through service innovation, specifically leveraging digital technologies. Combining digital tools can be helpful to support production and enterprise efforts. Applying various business functions starting from front office to production level needs innovation to make the customers satisfied that will help the business operations to get boosted (Prindible and Petrick, 2015).

There are also both external and internal challenges on the part of innovation when it comes to promoting innovation in SMEs. External factors can be subdivided into supply, demand and environment related as supply barriers include difficulties in obtaining technological information, raw materials and finance; and demand barriers are related with customer needs, their perception of the risk of innovation including domestic or foreign market limitations. Internal barriers can be further subdivided into resource related such as internal funds, technical expertise or management time, culture and systems related, human nature related such as attitude of top management or employees who resist innovation (Lahi and Elenurm, 2014).

It should be noted that most open innovation research takes place in larger enterprises. Open innovation in SMEs was found excluded from the mainstream, thanks to lesser abilities of SMEs, lower resources, lack of access to technological resources, weak experience in exchanging knowledge with larger companies. Thus, SME sector considers external sources as routes to marketing and sales channels (Lahi and Elenurm, 2014).

Conclusions

SMEs are considered as a strong economic sector of Nepal. Its role is huge in terms of creating employment, entrepreneurship development and boosting economic growth of the country. Proper management combined with an innovative approach is being realized these days as a way to sustain the growth of SMEs. It supports the overall objective of the country in alleviating and creating employment. The role of SMEs is of even greater importance in the least developed countries like Nepal in terms of laying economic foundation, encouraging and mobilizing small businesses and creating more social entrepreneurs who can sustain their existence and, in turn, create other entrepreneurs. Despite such a huge potential, SMEs face various constraints to sustain their enterprises, starting from operating to selling their products in the international market.

Innovation is found a key element in managing SMEs for its sustainability to convert them into a strong economic sector. It will also ultimately help in developing entrepreneurship. If entrepreneurs do something original in their enterprises, they are becoming innovative to increase the value of their services and products and eventually reach out to end consumers. If the SMEs can improve the product and market it with new methods, it will bring significant changes in the overall sales volumes.

Some of the key components required for sustainable entrepreneurship and innovation management of SMEs sector are as follows:

- Introduction of new products by SMEs;

- Diversification of products in the sector;
- Injecting more capital for finding new ideas through R & D;
- Enhancing the capacity of labor force;
- Adopting newer technologies for growth in sales and profits;
- Networking with other firms for innovation.

The above allows making some essential conclusions:

- Innovation is a tool for entrepreneurship. It creates resources with a new skill capacity for creating wealth;
- Innovation is both a social and economic term;
- Innovation is triggered by changing requirements of consumers;
- An entrepreneur shall perform systematic examination of sectors that offer entrepreneurial opportunities;
- Entrepreneurship is innovation, according to Schumpeter; it creates new ways of doing things;
- Efficient combination of technologies with new ideas help run businesses properly;
- Entrepreneur is a risk-taker through trials and errors, which promotes introducing innovations;
- Entrepreneurs should invest more capital in ventures, expand their market, and engage branding devices to sustain SMEs.

To ensure a competitive enterprise, innovation is a prerequisite, which can be boosted through properly utilized resources and giving birth to new ideas. As it is a key determining factor to boost SMEs strengths, the people engaged in the process of innovation should demonstrate new behavioral patterns and innovative approach to link their ideas with technological opportunities and exploit the hidden market potential. Traditionally speaking, innovation was considered as a step within the organization and not explored to enhance market through networking. However, with the emerging evolution of information technology (internet), the innovation techniques are being applied in all strata of business world.

Nepal is not an exception. Of the total 5,646 enterprises in Nepal, there are only 686 large industries as per the Department of Industries (DoI), a government body. In addition, small and medium ones number 4,940. In terms of employment and contribution to GDP, SMEs perform a very important function. The current concerns are sustainability of SMEs and providing them with innovation management possessing better entrepreneurship skills.

Raising new capital along with good information base and skilled management can lead to sustainability of SMEs, as per various researches and experiences of other countries. Nepal is now

being faced with the challenge of investing more capital in new prospective ventures and developing high innovative skills. SMEs are also found flexible enough to adopt newer technologies. After that, new

products and services can be created, which is supposed to result in expanding entrepreneurial activities and overall public benefit.

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