

CAN SMALL AND MEDIUM ENTERPRISES WIN THE BATTLE FOR INNOVATION?

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Abstract:

SMEs should be well-advised to shift their creative efforts from products to processes, asking themselves constantly the question: "how can we do things differently, better, more effectively, or more efficiently?" This is particularly indicated in services marketing where rapid adaptation and flexibility are even more valuable than in the marketing of tangible products.

Value creation, customer satisfaction, customer loyalty, and customer retention are not the exclusive responsibility of marketing. Everybody in the company should enter into a partnership in order to achieve a partnership between the company and the customer. This is especially true in the services industry where personal contact is the essence of the business.

Key words: *SME, Value creation, Customer satisfaction, Customer loyalty*

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Innovation means renewal by application of new technologies, methods and procedures at the cutting edge of business. Innovation in our sense is always directly connected to customer requirements and business. Innovation can be defined as the way or process to create new added values for customers.

When people hear the term "innovation" they usually think of technological innovation. In fact, technological innovation is nowadays the most dominant innovation type. Nevertheless, apart from technological innovation, there are another relevant innovation types as for example economical, organizational, political and social innovations. It should be mentioned that the different innovation types can affect each other mutually: for example technological innovations (e.g. the information technology/Internet) may have an impact on economical, political and social innovations.

SME which want to improve their innovativeness have to focus on the education and training of their employees. In order to solve problems, employees require knowledge, which needs to be updated regularly.

Moreover, successful innovations with an attractive market potential are often creative combinations of different innovation.

The globalization of product and service markets is accelerating. European companies - in particular SMEs - face increasing competition not only for sales, but also for technical know-how and skills.

The globalization does not bring in only challenges but also presents an opportunity to internationalize sales in new, rapidly growing markets and thereby to generate additional revenues. New markets however (may) also require products and services which are adapted to the local needs and tastes of those markets.

Providing innovative products with enhanced utility may help firms strengthen their competitive position in home as well as international markets. This necessitates innovation efforts to bring new and/or better products into the market while developing organizational and manufacturing processes that enable more efficient and cost-

effective production, distribution and after-sales services. Figure 1 shows a “goal model” for innovation activities in SMEs. [4]

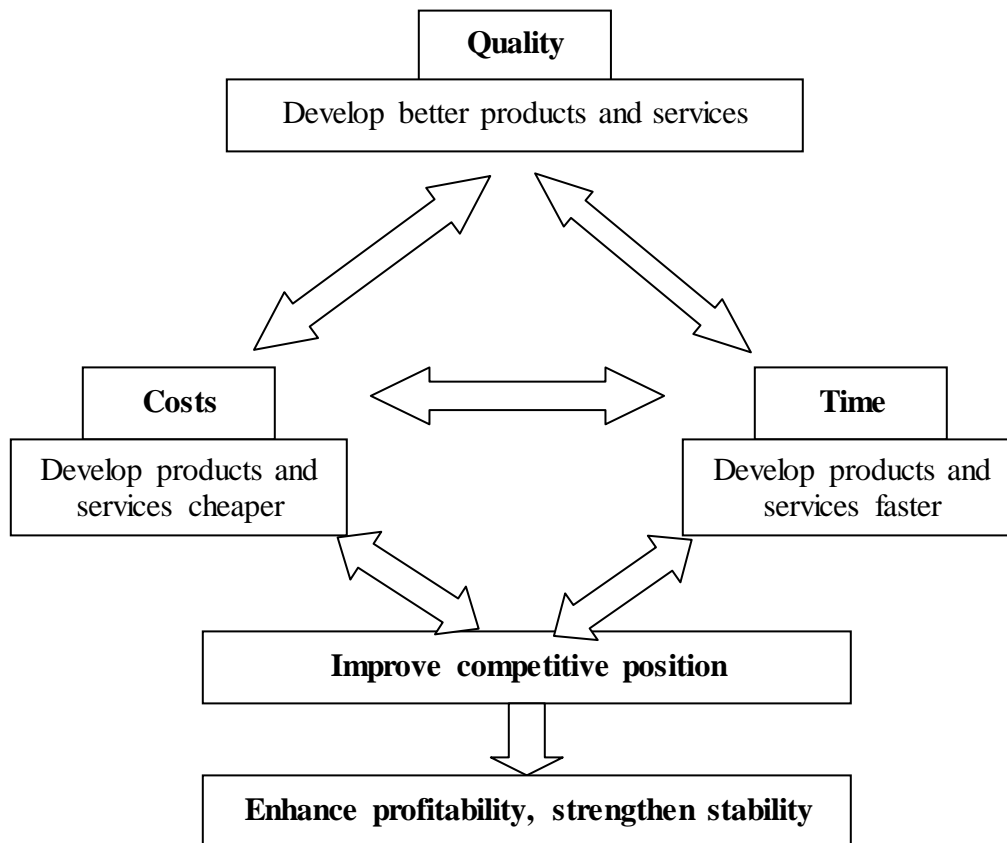


Figure 1 – The “Better, Cheaper and Faster” Model for Innovation in SMEs

In this environment, competitiveness at the company level depends crucially on the speed with which new products can be brought to the market place and new cost-saving improvements made. Similarly, the creation of wealth and employment depends to a very large extent on the speed with which scientific and technological breakthroughs are converted into practical and attractive solutions.

Innovation - the ability to reap the rewards of scientific achievement - requires much more than the ability to turn a new idea into a working product. Efficient flows of technology are not enough - ready supplies of finance and of business skills are also needed. There must be accessible protection for intellectual property and adequate incentives for entrepreneurial drive.

Creativity in business comes in two guises: in products (or services) and in processes.

Creative products and services are almost the exclusive province of large companies that can invest huge budgets or that can buy the creative ideas of others by paying lavish royalties for in-licensed products. There is little chance for SMEs to compete in this kind of creativity with the big ones. The field of process innovation on the contrary is very much open to everybody. SMEs should be well-advised to shift their creative efforts from products to processes, asking themselves constantly the question:

“How can we do things differently, better, more effectively, or more efficiently?”

This is particularly indicated in services marketing where rapid adaptation and flexibility are even more valuable than in the marketing of tangible products.

Critical to such a culture of innovation are the small and medium-sized enterprises (SMEs) which have in recent years proved themselves to be the engines of

economic growth, and the principle sources of new employment. SMEs(1) account for over 99% of all European businesses, and in many fields provide the channels along which new technologies develop. In fact, in sectors such as biotechnology and information technology, relatively small numbers of new, technology-based firms are also key suppliers of new technologies.

The ability to exploit new technologies and to respond quickly to changing market needs, gives SMEs a pivotal role in the success of the European economy. Support for the creation of new ventures and spin-offs from research institutions and large companies, as well as the removal of barriers to their rapid growth and support for the transfer of know-how, also deserve to be accorded the highest priority.

The SMEs barriers to innovation can be:

- financial bottlenecks: hindered access to external finance, high innovation costs (and therefore), high economic risks [1];
- Shortage of and hindered access to qualified personnel [7];
- limited internal know-how to manage the innovation process effectively and efficiently (e.g. missing project management know-how) [6];
- missing market know-how: to meet customer's needs, to enter foreign markets [5];
- bureaucratic hurdles: long administrative procedures, restrictive laws and regulations[3];
- lack of intellectual property rights [2].

The European Union possesses extraordinary potential for innovation. Europe has a longstanding tradition of producing breakthrough inventions; it has a wealth of creative people and can build on its cultural diversity. It has laid the foundations for one of the largest single markets in the world, where innovative products and services may be commercialized on a large scale. Historically it has a strong and responsible public sector, which should be capitalized on.

The European Commission is formulating, influencing and, where appropriate, implementing policies and programmes to increase Europe's innovativeness. The Commission is trying to make sure innovation is thoroughly understood and approached comprehensively, thereby contributing to greater competitiveness, sustainability and job creation.

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