

Chapter 16

Innovation Strategies in SME: Global Perspective

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ABSTRACT

Small and Medium Enterprises (SMEs) play a vital role in a country's economic development. The current trend of economic growth and rapid industrial development has made many countries open up their economies to the world. In conjunction, governments the world over are devoting and designing SME development plans to assist the SMEs in meeting new business challenges in the competitive global business environment. The focus of this chapter is identifying and analyzing innovation strategies in SMEs, drivers of innovation in SMEs from global perspective, and understanding the need of effective HRM to drive innovation. This will help in getting an idea about the competitiveness facing SMEs in the global business environment since challenges of SMEs in a globalized market together with economic turmoil is the reality. Further, two mini-cases reflecting SME innovation strategies are provided for better understanding.

INTRODUCTION

It is apparent that small and medium enterprises (SMEs) play a vital role in the economic development of a country. The governments all over the world are devoting and designing the SME development plans to assist the SMEs to meet the new business challenges in the competitive global business environment. There is no doubt that economic activities are moving in the direction of globalization. The system of production and distribution is evolving worldwide. The important role that international trade plays in connecting countries around the world is clear. Globalization

creates new structures and new relationships, with the result that business decisions and actions in one part of the world have significant consequences in other places. Underlying and reinforcing these globalization trends is the rapidly changing technological environment, particularly in information processing, and telecommunications. Changes in telecommunications and data processing capabilities make it possible to coordinate research, marketing and production operation around the world. Almost instantaneous communications make it possible to trade financial instruments twenty-four hours a day, and thus more return-sensitive are location of resources within firms, industries and countries.

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The growth of global markets stimulates competition and forces governments to adopt market-oriented policies, both domestically and internationally. Modern technologies have greatly reduced the cost of information and the capabilities to participate in the global economy. In fact, there is ample evidence that SMEs has not only flourished in domestic economies, but that their international presence has grown as well. An overview of SME participation in the global economy reveals at least three lines of activity: trade, technology, and investment. The most commonly discussed topic in SMEs international literature is their role as exporters from their domestic jurisdictions to foreign customers. The opportunities and challenges facing SMEs in this role are well known. The second most prominent issue in the literature is SMEs and technology, and particularly SME supplier connections with larger Multi National Enterprise (MNEs) in local markets. If small firms face higher barriers to entry in international operations than large firms, and have a more difficult time protecting their property rights, how can small firms become international players? When SMEs invest abroad, they generally seek help from larger corporations. Gomes-Casseres (1997) examines the use of strategic alliances by SMEs. He asks three questions:

1. When do small firms use alliances to do business abroad?
2. How do small businesses use alliances?
3. What effect do alliances have on firm's competitive performance?

Internationalization of the production and distribution of goods and services, and the associated trade and capital flows, has accelerated in most countries during the past 15 to 20 years. This process has been loosely described as "globalization". However, it has been broadly accepted as a set of activities associated with the multinational or direct foreign investing firm which integrates its activities across national borders to maximize the profits or interests of the group. More simply, it can

be the broader opening up of national economies to the international marketplace (EPAC, 1995a; 1995b). It is believed that globalization is actually not a new phenomenon since international trade, foreign direct investment and associated movement of capital, management and labor has been going on for centuries. If globalization is defined as being the broader opening up of national economies to the international marketplace, then it has implications for small firms as well as large. Increased participation of small firms in the international marketplace can be seen as an important part of globalization.

Central Bank of Malaysia (2003) findings based on case studies done on 10 year or more SMEs shows that the key success factors in the globalize space environment are:

- Sound management capability and integrity.
- Sound business cultures and entrepreneurial spirit.
- Prudent financial management.
- High quality products and services.
- Effective program for human resource development.
- Strong support from financial institutions (in terms of lending and advisory services).
- Strong marketing strategies (including good network with suppliers).
- Continuously looking for opportunities to expand.

Similar findings are there in SMEs related studies and research undertaken in India.

OVERVIEW OF SMALL AND MEDIUM ENTERPRISES (SMES)

According to Small and Medium Industries Development Corporation (SMIDEC), an enterprise is considered as an SME in each of the representative sectors based on the annual sales turnover or number of full time employees. SMEs are divided

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