Chapter XVII

What Should SMEs Do to Succeed in Today’s Knowledge-Based Economy?

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Abstract

The shift to a knowledge-based economy results largely from developments in information and communications technologies. Knowledge-based economies offer huge opportunities for small to medium-sized enterprises (SMEs) to develop entirely new high-value products and services, add value to existing products and services, reduce costs, develop new export markets, and add value to existing activities. Implicit promises include access to world markets, low-cost entry into new markets, and the ability to gain efficiencies in business processes. However, these promises may be illusory for most SMEs. Technological, organizational, and marketing hurdles are also making it more difficult for SMEs to succeed in knowledge-based economies. This chapter identifies those major factors that are hindering the success of SMEs in
knowledge-based economies. The chapter then goes on to suggest a set of guidelines to make SMEs succeed in this new knowledge-based society.

Background

The world has witnessed three distinct ages so far—the Agrarian Age, the Industrial Age, and now the Information Age. Today’s Information Age is having a dramatic effect on businesses as well as on the lifestyles of people. Globalization, rapid technological change, and the importance of knowledge in gaining and sustaining competitive advantage characterize this Information Age. Traditionally, economists have seen capital, labor, and natural resources as the essential ingredients for economic enterprise. In recent years, it has been noticed that the new economy of the 21st Century is increasingly based on knowledge, with information, innovation, creativity, and intellectual capitalism as its essential ingredients (Persaud, 2001).

Today’s modern economy is based more on intangibles—information, innovation, and creativity—and their abilities to facilitate expanding economic potential (Persaud, 2001) and the exploitation of ideas rather than material things. Many new terms have been coined for this new economy such as “knowledge-based economy,” “borderless economy,” “weightless economy,” and “digital economy,” to name a few (Woodall, 2000). This new economy seems to defy the basic economic law of scarcity, which means if a physical object is sold, the seller ceases to own it. In this new economy, however, when an idea is sold, the seller still possesses it and can sell it over and over again (Woodall, 2000).

Traditional economic theory assumes that most industries run into “diminishing returns” at some point because unit costs start to rise, so no one firm can corner the market. In the new economy, knowledge-based products and services have “increasing returns” because knowledge-based products are expensive to produce for the first time, but cheap to reproduce. High fixed costs and negligible variable costs give these industries vast potential for economies of scale (Woodall, 2000).

The shift to a knowledge-based economy results largely from developments in information and communications technologies. The facility to communicate information instantaneously across the globe has changed the nature of competition. A company’s knowledge assets are inherent in the creativity of its knowledge workers, combined with technological and market know-how (Halliday, 2001). Information can now be delivered with such speed that companies must develop their knowledge assets to solve competitive problems.

The knowledge-based economies offer huge opportunities for small to medium-sized enterprises (SMEs), to develop entirely new high-value products and services, add value to existing products and services, reduce costs, develop new export markets, and add value to existing activities. The Internet has increased the scope of innovation by lowering information and distribution costs. As a result, emerging today are combinations of innovation and equitization, wherein individuals and companies sell equity
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