

# Chapter 4

## A Comparative Study of Financing Innovation Capacity for Romanian SMEs in a Global Economy

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### ABSTRACT

*The increasing economic importance of technology, information, business processes and human capital has been notified and considered. Small businesses are more affected than the large and very large ones in terms of innovation. The object of our analysis will focus on local analytical developments of the performance indicators resulting from the development of innovative capacity so as to achieve an economic and financial profile of several representative regions. The results of this study show that innovative Romanian SMEs will determine the achievement of competitive performance in domestic and international markets, as their fundamentals concerning the nature of products, knowledge, information and communication means used are experiencing a rapid development. Coherent and effective settlement of the innovation problems the SME sector is facing, starting with the causes that generate them, is conditioned by the operation in key areas which determine their functionality and performance.*

### INTRODUCTION

In recent decades, the increasing economic importance of technology, information, business processes and human capital has been notified and considered. In this way, a transition is made from an economy based on natural, tangible resources, to an economy based on knowledge - knowledge being the common denominator of these factors and bringing about what has been previously called the “knowledge revolution” (Pohjola, 2002).

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Building a knowledge-based economy is a process of particularly large complexity, difficulty and sophistication which can only be achieved through a professional management at national level. It is based on the harmonization and active participation across all the country's economic, innovation, education, social and political forces, closely correlated with the peak world trends and, of course, primarily with European ones.

Moving towards a knowledge-based economy gradually brought SMEs forward, giving them a new position and a new role (Floyd & McManus, 2005).

There is a consensus in the specialty literature regarding the fact that, at the foundation of surging the establishment and development of SMEs and deepening their internationalization, firstly there are the new economic opportunities brought about by technical progress, which are expected to keep growing in the 21st century (Teece, Pisano, & Shuen, 1997; Pek-Hooi, Mahmood, & Mitchell, 2004; Martineau & Pastoriza, 2016). Top technologies include especially information technologies and modern communication ones, which have already been established, biotechnology and green technologies. It should also be noted that the Internet and electronic commerce have developed widely at a pace not seen in most countries. Although at first small and medium enterprises have resorted to a lesser extent to the Internet, the situation changed rapidly and it is expected that the trend will further exacerbate. The advantages are well known, essentially allowing the discovery, development and exploitation of opportunities that were otherwise not accessible to SMEs (Manolova, Manev & Gyoshev, 2010).

Electronic economy, a result of innovation, is a business economy including all types of businesses built around the Internet in connection with other large-scale processes such as innovation, globalization and sustainable development. For various reasons, network economy is identified in everyday language with the Internet-based economy, and therefore it is also called "digital economy", "network economy", "electronic economy", "e-economy", etc. Companies in all economic sectors have started to adopt a new economic paradigm – moving towards "e-business" or new business models. E-business can be defined as the transformation of processes (operations, components) constituting a business with the aid of technology "Web + Internet", which enables businesses to be active 24 hours a day (Baporikar, 2015).

Small businesses are more affected than the large and very large ones in terms of innovation. The study of this problem has clearly shown that there is a relatively strong relationship between the size of the enterprise, its research, developed budget and innovation (Damanpour & Wischnevsky, 2006).

The Oxford Advanced Learner's Dictionary of Current English (2015) defines innovation as the introduction of new things, ideas or ways of doing something, which is yet to be carried out by anyone or that is unique. According to Trott (2005), innovation is any good service or idea that is perceived by someone as new, while Henrik (2007) sees innovation as the successful implementation of a creation and this innovation seems to foster growth, profits and success. In the words of Trott (2005), innovation is the management of all the activities involved in the process of idea generation, technology development, manufacturing and marketing of new (or improved) product, manufacturing process or equipment.

According to Litz and Kleysen (2001), innovation can be classified into product innovation and process innovation. Product innovation refers to the new or improved product, equipment or service that is successful on the market. Process innovation involves the adoption of a new or improved manufacturing or distribution process, or of a new method of social service. Riederer Baier and Graefe (2005), identify four different types of product innovation. These are: (1) incremental innovation, which is a kind of sustaining innovation by which present technology is used to improve products and services that have gained prominence in the market place; (2) technological substitution innovation, which involves the use of new technology developments to make entirely new products that fill existing market opportunities;

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