

Chapter 8

Innovation and Sustainability in SMEs

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ABSTRACT

Small and Medium Enterprises (SMEs) are the engines of economic growth, promote equitable development and create more opportunities for being innovative in providing sustainable solutions. They also play a crucial role in providing employment opportunities, aid industrialization in rural backward areas, reduce regional imbalances and assure equitable distribution of national income and wealth. But survival in the new global market calls not only for improved productivity but sustainability and growth through innovation on incessant basis. Business sustainability involves self-assessment to identify improvement opportunities, strengths and ideas for future organizational development. In India, though SME is an important contributor to economy, yet many face lot of difficulties and end winding up or becoming unsustainable. Several studies have shown that factors related to poor management, less innovative approaches, short short-termism are the causes of failure or closure. Hence, the core objective of this chapter is to explore the approaches which can lead to better understanding of sustainable replicas to enhance innovation and sustainability.

INTRODUCTION

Small and Medium Enterprises (SMEs) provide the necessary impetus for economic growth. They are not only useful in enhancing economic activities but also promote equitable development, provide source of employment, have lower capital needs. Further, they bridge the gap between rural-urban divide to large extent. In India, SME has been contributing significantly in both ways: employment opportunities and economic development. However, SMEs in India like elsewhere face many challenges and their survival in the global markets needs enhanced productivity and better ways and methods of doing things. This means for SMEs to survive, growth and remain sustainable in the face of global competition they need to be innovative. Business sustainability involves self-assessment to identify improvement opportunities, areas of strength, and to determine ideas for future organizational development. In India particularly,

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the SMEs face lot of difficulties and end either winding up or becoming unsustainable. Several studies have shown that factors related to poor management, shortsighted approach are the causes of small firm failure particularly. Hence, the core objective of this chapter is to explore whether adopting sustainable models can help SMEs to innovate and flourish. The focus is to discuss about the different sustainable concepts prevalent in knowledge world, highlights the need and importance of using sustainable, and innovate approaches for their continued success. In doing so, the study intends to address the questions: what is innovation in respect of SMEs: how innovation in SMEs can ensure growth and sustainability and what are the firms' elements in sustainability initiatives and the vital conduits for firm's innovation activities augmentation in relation to the firm's external environment?

BACKGROUND

A large yet one of the fastest growing emerging economy, India has become a hub of knowledge intensive IT services and IT industry. However, off late, the growth rate has slowed and poverty continues to be a major challenge. Innovation is critical to India's socio-economic development. The national strategy termed as, Decade of Innovations 2010-20, is devoted to solidification of its science and technology capacities. So also, the 12th Five-Year Plan (2012-17) seeks to address social challenges. To eradicate poverty and promote inclusive development, there have been many initiatives. One of the important such initiative launched to promote inclusive innovations, is Inclusive Innovation Fund (IIF). The IIF is expected to mobilize USD 3.2 billion (INR 50 billion) and will support enterprises that develop innovative solutions for the "bottom 500 million" in India. Similarly, National Innovation Foundation, formed in 2000, supports grassroots innovators.

Due to energy shortage, Indian SMEs face challenges and since growth in economic activities is directly relate to, rise in energy demand this increases dependence on imports of coal. As a response, several policies defined in the National Action Plan on Climate Change are in promotion to support renewable energy and energy conservation. Various national schemes, which aim to substitute energy through solar, fossil bases, like National Solar Mission, National Mission for Enhanced Energy Efficiency and National Mission for Sustainable Agriculture have been set up. Further, government subsidies are provided for all forms of renewable energy (whether on or off grid) with emphasis on environmental technology or greening existing manufacturing facilities.

UNDERSTANDING INNOVATION

Innovation is the process where in there is newness either in the way a thing is done or a complete new product or new service. It can be either a new thing or completely a new way of doing the same thing. It can refer to both tangible and non-tangibles. Therefore, it can be an innovative product or service or even process. According to OECD (2005), innovation can mean the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. Thus, innovation can play a strategic role society by contributing to growth, through creation of new opportunities and jobs, which in turn may help to deal and mitigate social and environmental challenges (Eurostat, 2005).

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