An Empirical Investigation of Innovative Management Practices of Small and Medium Scale Enterprises (SMEs)

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ABSTRACT

Innovation is considered an essential activity for small and medium-scale enterprises (SMEs). The contribution of innovation in the Indian economy is very noticeable. India is continuously improving and has jumped to the 52nd position in the overall world ranking in 2019. The objectives of this study are to identify the factors of innovative management practices indulged in SMEs to achieve innovation and to propose a framework for measuring firm performance in the region of Chhattisgarh state in India. Data was gathered using a self-monitored questionnaire survey and an exploratory factor analysis (EFA) method using SPSS 20.0 software was applied to get the factors of innovative management practices. This study identified eight factors of innovative management practices involved in SMEs. Further, their reliability test and mean value analysis has been done. A conceptual framework of firm performance measurement is also presented at the end. Also, this study contributes a good amount of work in innovation management literature which will help scholars and academicians for future work.

KEYWORDS

Factors, Innovation, Innovation Management, Innovative Management Practices, SMEs

1. INTRODUCTION

Innovation is considered as the most vital approach in today’s world to achieve competence. SMEs are often restricted by their size, finance, number of staff, and other challenging issues compared to large scale industries. Innovation plays a critical role in uplifting the fighting spirit of SMEs for survival in the market, innovation has become a tool for SMEs to deal with changes and to get sustainable growth. Innovation is essential to compete with large industries and to gain a sustainable competitive advantage. Innovation is very important for improving the performance of the firm, changing social and economic behavior, generation of employment, and many opportunities (Škerlavaj, Štemberger, & Dimovski, 2007).

The term innovative management practices are defined according to the ability of the firm to find different ways to acquire, manage and implement new ideas within the organization (North
& Smallbone, 2000)(Calantone, Cavusgil, & Zhao, 2002). To understand and enable innovative management practices in SMEs, one should understand all the internal and external activities carried out by SMEs to meet the upper hand in the market. Innovative Management practices have a huge impact of the performance of the firm, these practices guide the flow of the business of the firm (Vrande, Jong, & Vanhaverbeke, 2009)(Terziörs, 2010)(Brunswicker, 2013)(Tatiana, Torres, Rocí, & Leó, 2015) (Rocí, Ibarra, Alexander, Rueda, & Leó, 2015)(Virlée, Hammedi, & Parida, 2015).

On the other hand firm performance is broadly related to the development of business by measuring the output of the company (Anderson, Potočnik, & Zhou, 2014). Murphy, Trailer, & Hill, (1996) also claimed that firm performance is a multidimensional concept with three indicators which can be production, finance, or marketing, which results in the measurement of factors such as growth and profit. It can be measured with objective or subjective indicators (Dawes, 1999)(Harris, 2001)(Sohn & Jung, 2010)

Chhattisgarh is the fastest-growing state in India, Chhattisgarh came into existence on 1st November 2000. Chhattisgarh is the land of opportunities and among the richest States in India in terms of mineral and forest resources, with largely untapped potential for industrialization (Kapoor, 2019). The State has immense potential for the economic and overall development of the state. Due to the easy availability of these resources, it has immense potential for industrial development. Innovation has a huge impact on the development of small industries; innovation is used by the entrepreneur as an instrument to change material into resources and empowers it with economic values. As per the report of NITI Aayog (NITI AYOG, 2020), the Government of India Chhattisgarh is a socially and economically backward state. There is the highest concentration of poor populations near forest areas. Similar to other developing regions, small and medium enterprises (SMEs) play a vital role in the Chhattisgarh economy. Therefore researchers are wishing to identify the innovative management practices of Small and Medium Enterprises (SMEs) which are responsible for the growth of firms in Chhattisgarh through empirical study.

This study investigates the factors of innovative management practices involved in working processes of SMEs by carrying out a factor analysis of the obtained data from a questionnaire survey among SMEs of the different part of Chhattisgarh region (Raipur, Bilaspur, Korba, Durg, Bilai, Rajnandgao, Ambikapur, Raigarh, Jagdalpur, etc). The structure of the paper is – firstly, the previous work which has been done in the field of innovation is discussed. Secondly, the methodology used for obtaining the factors of innovative management practices is presented. Thirdly, the framework to measure firm performance and the results obtained from this study are given. At the last results, conclusions, references, author’s biography, and Appendix A, a Questionnaire, is presented.

2. LITERATURE REVIEW

2.1 Innovation

The first definition of innovation was given by Joseph Schumpeter (1934) in the Theory of Economic Development. Schumpeter investigated the role of innovation in the business and how new ideas benefit the business by bringing change in the market. The concept is covered under 5 cases in the study. The introduction of new goods and new methods of production, the opening of a new market, the conquest of a new source of supply of raw materials, creating monopoly through trust-building. Schumpeter stated that there are two types of innovation named as product and process innovation. Product innovation deals in launching new products to satisfy the market and process innovation deals in improving the production processes of the firm to save time, energy, and ensure profit (Croitoru, 2012). Peter (1985) stated that “Innovation is the act that endorses resources with a new capacity to create wealth. Innovation indeed creates a resource. There is no such thing as a resource until man finds a use for something in nature and thus endows it with economic value”. Advisory committee on measuring innovation in the American economy defined innovation as “the design, invention,