

Innovation and Competitiveness – Small and Medium Enterprises in India

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ABSTRACT

Innovation is highly essential for rapid development of Small and medium enterprise sectors in any country economy, mostly this sector plays vital role in developing countries towards employment, income generation and regional development. India can achieve its socio-economic objectives by focusing on gainful employment for millions of educated youth and by helping millions of others transition from an overburdened agricultural sector to the small-scale manufacturing and service sectors in the next decade. The small and medium enterprises (SMEs) have been recognized as engines of equitable economic growth and development. An extremely important barrier to competitiveness in the SMEs sector is the lack of knowledge, skill and resource conducive to innovation drives. According to surveys by the National Knowledge Commission 70,56 and 17 percent of SMEs have introduced innovation that is new to the industry, new to India and new to the world respectively therefore, implying that 17 percent of the SMEs are highly innovative. High-end innovation gives competitive advantage to the firm and industry in global level market. Today SME sector has facing number of problem at a same time foreign countries has giving high competition in global trade for avoiding this situation firms should invent innovative technology and multidimensional products . This paper is explaining various innovative aspects and how it is impact on development of Indian SMEs sector.

Keywords: Innovation, competitiveness and SMEs (small and medium enterprises)

INTRODUCTION:

Small and Medium Enterprises is the key part of any country economy development, especially developing countries like India due to huge employment ,income generation and sustainable development of the country. In Indian it play more than crucial role for county development in terms of employment generation around 42 million people are employed ,next one after agriculture sector and 45 percent of industrial output and 40 percent of total exports to the abroad, more over it produce 8000 quality products in international markets . As a result, SMEs sector having wider opportunity to expose thought country. The Indian market is growing rapidly in domestic and internationally ,at as same time Indian industry is making extraordinary progress in different Industries like Food Processing Manufacturing, Pharmaceuticals, Precision Engineering, Retail, Textile & Garments, IT, Agro and Service sectors. SMEs are finding ever-increasing opportunities to enhance their business activities in various sectors. Indian government identifies the need of developing SMEs sector because this sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. There is number of advantages is there for SMEs development in the country because its less capital intensive ,high labor absorption nature, It has been estimated that minimum 50,000 rupees of investment in fixed assets in the SMEs sector generates employment for at least three persons. This is the platform for the young entrepreneurs to prove them as a successful investor at same time this sector have a international development opportunities.

According to MSME act 2006 definition of MSME is based on investment and its varies to sector vise;

Sector	Micro	Small	Medium
Manufacturing sector	0-25 lakh	25 lakh-5 crore	5-10 crore
Service sector	0-10 lakh	10 lakh -2 crore	2-crore -5 crore

Source: MSME act 2006

Innovation usually refers to renewing, shifting or creating processes that are more efficient, products or ways of doing things. For businesses, it means generating and implementing new ideas, creating dynamic products or improving your existing services. Innovation can be a catalyst for the growth and success of any business and it help to adapt and grow in the marketplace. Being innovative does not mean only inventing new things; innovation can mean changing business model and adapting to changes according to the environment to deliver better products or services in the market place, which gives a competitive advantage to the firm. Successful innovation should be an in-built part of any business strategy and the strategic vision.

LITERATURE REVIEW:

Joseph Schumpeter's (1934) analysis of the Great Depression caused him to conclude that the most effective strategy for surviving a major economic downturn is for organizations to exhibit an entrepreneurial orientation in that orientation innovation is important for achieving competitive advantage of the firm. Drucker (1985a, b) posited that post-war business survival rates were likely to be highest among firm, which engaged in innovation. Various studies have also concluded that innovation will assist firms to emerge from an economic downturn in a much stronger position than their competitors who choose to cut costs or improve internal efficiencies through innovative production, process and marketing (Trott, 1998; Gilbert, 1990; Ghemawar, 1993; as cited in Chaston and Scott, 2013). Most organizations traditionally seek to retain ownership of proprietary knowledge by using a "closed approach" to innovation (Cooper, 1994; Cooper and Kleinschmidt, 1995; as cited in Nicholas and Ledwith, 2006). Chesbrough (2003) who coined the phrase "open innovation," posited that firms in the twenty-first century are more likely to be successful by entering in to collaborative relationships with other organizations when seeking to exploit innovation (as cited in Chaston and Scott, 2013).

Innovation is one of the main factors underlying countries' international competitiveness and their productivity, output and employment performance (Asheim and Isaksen, 1996). Small firms often better placed than larger firms to react quickly and efficiently to changing patterns of market demand and to take advantage more easily of the opportunities opened by the innovative developments in production and operational processes (University of Cambridge, 1992). It is with this backdrop that the role of technological innovations in the growth of high-tech Small and Medium Enterprises (SMEs) examined in comparison with non-innovative SMEs in the Indian context. Bala Subrahmanya (2001) observed that SMEs of North East England pursued radical innovations as a strategy of firm growth. Danneels and Kleinschmidt (2001) claimed that innovative products present great opportunities for SMEs in terms of growth and expansion into new areas though they did not study the relationship between innovation and growth. Lumiste et al. (2004) found that innovation helped Estonian SMEs to improve their performance in terms of market share and diversified range of goods and services. Engel et al. (2004) and Coad and Rao (2008) have explicitly focused on probing the relationship between innovation and growth in the context of SMEs of craft dominated industries in Germany and high tech sectors in the USA, respectively. Innovative sales secure small firm's market position and offer some opportunities for growth.

OBJECTIVE OF THE STUDY:

- To understand how innovation cause to the firm competitiveness
- To discuss the steps for develop innovation in SMEs sector

METHODOLOGY:

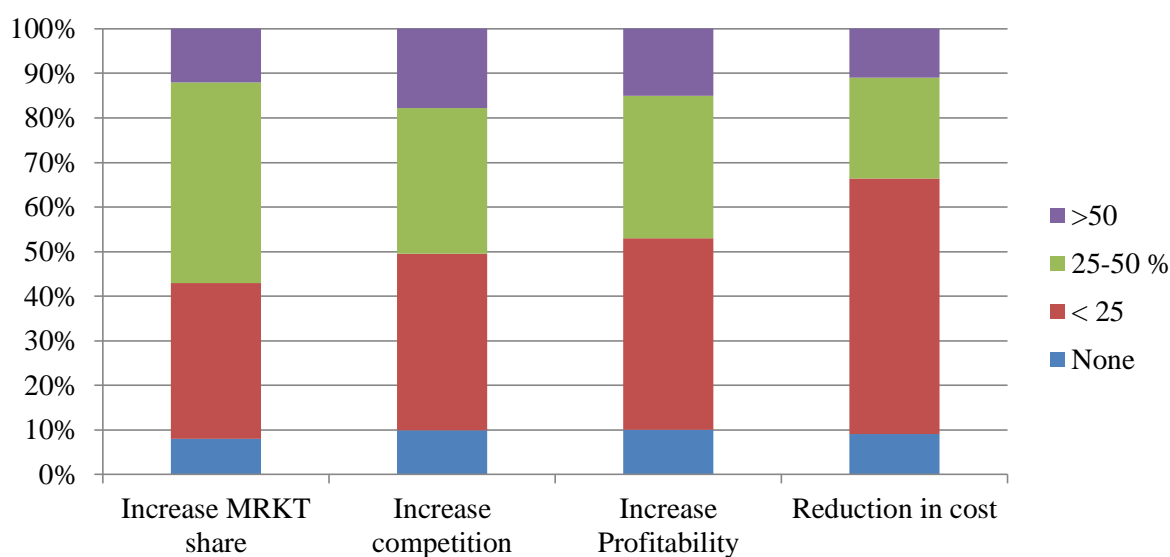
The present study is a descriptive; the data of this study obtained from the secondary sources. The secondary data collected from the various references, which are already existed in published form.

INNOVATION IN INDIAN SMES:

SMEs in India having innovation but it seems to be increase in future days which enable to competent in the global markets and increase the exports percent in overall GDP for achieve this objects SMES must adapt their

business models to include information technology in order to insure their continued success and long-term viability. Information Technology development would be able to reduce costs and have quick and easy access to global communication networks which give more advantages to the SMEs in India. The Indian government has in recent years initiated several programs to support entrepreneurship and growth of SMEs, since these programs are still in their infancy, future research could possibly focus on the effectiveness of the government's programs and their impact on internationalizing the SMEs. MadhusudanaRao, traces the genesis and growth of an SME in the IT sector against the backdrop of far reaching changes in the information technology industry in the USA and the economy in India in the early 1990s (as cited in Kasuganti, Brush and Rangamohan, 2013). The core objective of this paper is to explain the relationship between firm growth and innovation in the Indian SME sectors. Some of earlier studies analysis is that innovations are positively associated with firm performance and increased sales turnover and growth rate. According to those studies, innovation helps to SME for improve sales performance, the following may hold good. There is a positive relationship between percentage of innovated products in total sales and rate of growth of sales of innovated SMEs. Most of the companies, which are having high, rate of innovation those having high growth rate and competitiveness in the market place mean while their total sales rate also increasing. There are many of theoretical studies have been done in SMEs innovation and firm performance but in terms of empirical studies we can find two. The first one was confined to Karnataka state, which covered 648 micro enterprises on a sample basis and 1358 small-scale enterprises on a census basis across all industries in the manufacturing sector (Bala Subrahmanya et al. 2001). The study found that 258 micro enterprises and 716 small scale enterprises had undertaken technological innovations primarily due to external factors such as competition, technological change, customer requirements, and most effective factor is self motivation which decide entire firm future in terms of sales ,productions, process , share value in the market overall company value in the market. Both internal and external factor are involved in both product and process innovations though emphasis was relatively more on product innovations than on process innovations. The major achievements of their innovations comprised competitiveness development of the quality, reduced rejection, improved product designs, increased output, etc. A higher proportion of innovative firms have penetrated the export market relative to non-innovative firms. A more recent survey-based study (NKC 2007) on innovation in India covered 79 SMEs in both manufacturing and service sectors across the country. The most of innovation carried out by SMEs were new processes, new products, and new methods of production, new services, and new ways of organizing administration. Among those, half of the companies boost up their market share, competitiveness, profitability, and reduction overall costs due to innovation.

Percent Change in Firm Level Indicators Attributable to Innovation for SMEs



Source: NKC innovation survey in India 2007

Based on NKC innovation study (2007) there are 19% of SMEs claim that Innovation has led to greater than 50% increase in competitiveness, 30% claim it has led to 25-50% increase in competitiveness; 41% claim it has led to 0-25% increase in competitiveness and the remaining 10% claim it has had no impact. This study shows

that innovation has a significant impact on these indicators of firm growth in the case of SMEs. At the same time SMEs claims that the proportion of firms attribute 25-50% and >50% of the change in an indicator to Innovation is the highest in market share improvement. Those results show that “Innovation has the most significant impact on increase in market share in SMEs”. At a same time, the remaining indicators also impacted by the Innovation increase in terms of competitiveness, profitability and reduction of the costs.

SUPPORT MECHANISMS:

Innovation under local conditions is a critical element to help to the SMEs, both new and existing, to address India's mega challenges. First, any innovation must think about the concept of scale in the Indian context, the target customer size, reach, price points, and how to leverage local resources given all attendant cultural and regional insensitivities. To address this, the country should have its own indigenous pervasive models. To emulate established global models, there is a need to India to re-assess the applicability of these models in the Indian context. India has always seen plentiful localized creativity, or *jugaad*. The problem however, has always been the institutionalization of this innovation. Many Indian MSMEs innovate and discover new products and services that address a multitude of problems. But this innovation fails to sustain in most of the times, behind of this scene there are so many factors is there. Few companies go beyond the one innovative product or service. So, even while new technology start-ups can embark on breakthrough innovations for building knowledge-intensive businesses in the country, MSMEs should look at incremental innovation to ensure competitiveness. Recognizing the importance of generating, commercializing and absorbing R&D, in recent years, the government has created a number of support programmes, which could of course be more effective. Public programmes supporting innovation have achieved significant successes. Still, their outcomes have not been commensurate with the needs of the Indian economy or the resources invested in them. In a knowledge society, technology innovation is important factor that drives national and corporate competitiveness for achieving tremendous growth in market share and exports to the rest of the world. While innovation is the key word for every economy, India's challenge is to make innovation work for the masses and create sustainable businesses. The principal sources of technological innovations are the academia, R&D organizations, individual innovators, etc. Certain academic and technical institutions show that world-class innovation can take place in an environment where academia and business collaborate. As a result of liberalization, globalization and privatization huge competition among the countries for overcome those barriers there is need for strong culture of communication between universities and industry helps bridge the gap between science and economy and becomes a critical component in unleashing a country's innovation potential. Some institutional set-ups of significance towards the management of knowledge for creating economic value include S&T parks, technology and business incubators and academic technology licensing.

CONCLUSION:

Indian SME sector plays crucial role in economy development through income generating, employment and platform for young entrepreneurs. But compare with rest of the world our SME sector shows less development due to internal and external factors, each factors are inter depending on each other's. In case of internal factors low level of motivation causes to less innovation or imitating innovation of the firm, those firms are not sustain in this competitive world. External factors means government policies, market environment, economy condition, and other countries policies, among those government policies is important for creating a positive environment towards innovative development. This study is emphasizing that innovation needed for firm competitiveness in Indian SME sector, as well as government and entrepreneurs both build a flexible environment for innovative development towards a competitive advantage of the firm.

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