

## INNOVATION IN SMEs - AN INTENSIVE PREOCCUPATION OF BUSINESS PEOPLE ALL AROUND THE WORLD

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***Abstract:** Innovation in small and medium enterprises (SME) has been given rather little attention. The current field of research in SME innovation is still very limited and it is not very clear whether creative innovation is implemented in SMEs all around the world<sup>20</sup>. In spite of the fact that the openness towards innovation has developed rapidly and has defined a new trend of management research, the management of innovation, most accomplishments with innovative character belong to large companies in the manufacturing field<sup>21</sup>.*

**Keywords:** innovation, creativity, competitiveness, SME, top level technologies

**JEL classification:** O14, O32

### 1. Introduction

Small companies face nowadays the conditions imposed by a tough, and very competitive market. The global economic and financial crisis highly affected the financial health of many SMEs, especially the ones that are active in industries on whose market there entered foreign, with low costs, thus endangering the survival of competing companies already present and active on the respective market. Also, the new international regulations might make a profitable business operated by an SME in a niche field become a real nightmare within weeks or months.

Startups in the field of top-level technologies, without needing production capabilities or distribution channels, may transform technology into a very profitable successful business. Therefore, the change in the market conditions forced small companies to adapt themselves to the new market conditions or to reinvent their business by means of new technologies or unique value. At the same time however, small companies must face several constraints concerning the differentiation of products and the change in their business model. Major responsibility consists in the fact that most often SMEs acutely lack internal financial resources and necessary technical capabilities. Consequently, they must cooperate with external partners, and successfully innovate to develop new sources of income and reach more profitable positions in the competitive landscape. The openness towards innovation is thus a logical solution for many SMEs<sup>22</sup>.

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<sup>20</sup> Kim, H. and Park, Y. (2010), The effects of open innovation activity on performance of SMEs: the case of Korea, *International Journal of Technology Management*, 52(3/4), 236-256

<sup>21</sup> Van de Vrande, V., De Jong J.P.J., Vanhaverbeke, W. and De Rochemont, M. (2009), Open innovation in SMEs: Trends, motives and management challenges, *Technovation*, 29(6-7),423-437

<sup>22</sup> Chesbrough H.W. (2003), *Open innovation; The new imperative for creating and profiting from technology*, Harvard Business School Press, Harvard : Boston: MA and Chesbrough, p.38

## 2. Innovation as a process

Innovation is a process whose initial moment is a new idea, and the final moment is its materialization by being introduced on the market<sup>23</sup>. Innovation occurs in the daily life and progressively changes the economy and the entire society<sup>24</sup>.

Innovation and creativity are together main sources for the development of the knowledge society, which in its turn is dependent on the entrepreneurial spirit and also on the economic growth rate<sup>25</sup>.

Used more and more often lately, innovation has come to represent one of the intense preoccupations of business people all around the world. By innovation they try to attract new clients, and the mass media ads emphasize the new characteristics of the products that they promote<sup>26</sup>.

Also, academic research focuses more and more on the investigation of this field, and the decision makers responsible with designing and implementing macroeconomic strategies and policies emphasize innovation as an element that generates added value and economic prosperity. In this context, the promotion of principles specific for innovation becomes a priority for SMEs, but also for large companies looking for solutions to improve their innovative efficiency and capability, in firm dependency of its own economic performance. To stimulate these preoccupations at the SME level, governments have developed a series of specific programs with regional emphasis with the purpose of growing performances in innovation, including by adopting the operating principles of this process.

From this macroeconomic perspective, innovation may significantly contribute to the development of developing states/regions<sup>27</sup>.

From a microeconomic perspective, the approach of innovation revolves around the durable competitive advantage for the business success<sup>28</sup>.

Innovation as a complex process makes possible the communication between the scientific community, market and technology<sup>29</sup>, practically playing the role of a “progress engine” both from the viewpoint of the SME development and of the national economy<sup>30</sup>.

In a general framework, one may say that innovation is synonymous with the introduction of a new concept, good, product, service, etc. But the definition agreed by the scientific community is the one published in the Oslo Manual, which says that innovation is „the implementation of a new or significantly improved product (good and/or service), an operational process (production and delivery

<sup>23</sup> Adaptation after Brad S., Mocan B., Brad E., Fulea M. (2014), Leading Innovation to Improve Complex Process Performances by Systematic Problem Analysis with TRIZ. In: EPFL Lausanne, TRIZ Future Conference 14, Global Innovation Convention. Lausanne, Switzerland, 29-31 October 2014. Lausanne – Switzerland: Elsevier

<sup>24</sup> Camelo C. (2010), Strategic consensus top management teams and innovation performance. *International Journal of Manpower*, 31 (6), pp. 678-695

<sup>25</sup> Dinu V., Grosu R.M., Săseanu A.S. (2015), Romanian Immigrant Entrepreneurship: Utopia or Reality? An Overview of Entrepreneurial Manifestations of Romanian Immigrants in Andalusia, Spain. *Transformations in Business & Economics*, 14(1(34)), p. 48-64

<sup>26</sup> Jaramillo B., Jenkins C., Kermes F., Wilson L., Mazzocco J., Longo T. (2008), Positive Deviance: Innovation from the Inside Out. *Nurse Leader*, 6(2), p. 30-34.

<sup>27</sup> Grosu R.M.(2015), Best practices in the field of returnee entrepreneurship. *Amfiteatru Economic*,17(39), p. 799-814

<sup>28</sup> Maier A., Kepller T., Maier, D. (2014), Innovation the new trend in today’s challenging economy. In: The Bucharest University of Economic Studies, The13th International Conference on Informatics in Economy, Education, Research & Business Technologies. Bucharest, Romania, 15-18 May 2014, Bucharest: Publisher Editura ASE

<sup>29</sup> Procopie R., Pamfilie R., Bobe M., Carceag M. (2009), Innovation - global vision on the product in the socio-economic environment. *Textile Industry Journal*, 60(2), p. 90-96

<sup>30</sup> Kao J.(2007), *Innovation Nation: How America is losing its innovation edge, why it matters, and what we can so to get it back*, New York: Free Press

methods), a marketing means (packaging, sale, or distribution methods) or new organizational or management methods or processes in the business practice, in the working environment or in the external relationships”<sup>31</sup>.

### 3. Innovation and creativity – factors of economic growth

Innovation is one of the essential factors of growth and prosperity of the contemporaneous global economy<sup>32</sup>. In the current context, SMEs are as innovative as large companies, and innovation is much more important for SMEs than for other types of companies, as it generates competitiveness<sup>33</sup>. Also, SMEs may be a source of innovation for large companies, as the latter may cooperate to produce components necessary in the innovation process, especially as the most important suppliers of large companies are really SMEs. Thus one makes the step from a closed innovation system to an open one<sup>34</sup>, as an effect of developing a company with respect to its size and results<sup>35</sup>.

Innovation in a closed system means the absolute control of innovation, as the generators of innovative ideas are the very companies that later develop them. In contrast, open innovation uses both internal and external knowledge. They may be developed and used to create value, but also involve significant investments from the promoting companies.

In general, SMEs do not follow open innovation, and the results in their case are significantly different from the ones obtained by large companies, who follow this concept. The large companies have enough resources, while SMEs look for resources to focus on research and development. By their very nature, SMEs are not formalized, and this makes necessary another way of configuring the innovative process of the SME<sup>36</sup>.

In spite of these aspects, open innovation does not involve significant risks or the initiation of major investments, as it may be the generating factor of success of a company. Nevertheless, this depends on the organizational culture, the features and the structure of the innovation process, but also on the adopted business model. An organizational culture open to innovation has at its foundation a series of principles of fruitful collaboration between the company and external experts, based on value-creating activities of research and development.

The advantages of adopting the principles of open innovation are, among many others: the growth of the learning potential by using sources outside the organization, obtaining complementary

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<sup>31</sup> OECD (2005), OSLO manual, Guidelines for Collecting and Interpreting Innovation Data, 3rd Edition, [online] <http://epp.eurostat.ec.europa.eu/cache> , p.46

<sup>32</sup> Maier A., Keppler T., Maier, D. (2014), Innovation the new trend in today’s challenging economy. In: The Bucharest University of Economic Studies, The13th International Conference on Informatics in Economy, Education, Research & Business Technologies. Bucharest, Romania, 15-18 May 2014, Bucharest: Publisher Editura ASE

<sup>33</sup> Radas S., Bozic L. (2009), The antecedents of SME innovativeness in an emerging transition economy. *Technovation*, 29 (6-7), p. 438-450

<sup>34</sup> Tomlinson P.R., Fai F.M. (2013), The nature of SME co-operation and innovation: A multi-scalar and multi-dimensional analysis, *International Journal of Production Economics*, 141(1), p. 316-326

<sup>35</sup> Chesbrough H. (2006), *Open Business Model: How to thrive in the new innovation landscape*. Boston: Harvard Business School Press

<sup>36</sup> Stanislawski R., Lisowska R. (2015), The Relations between Innovation Openness (Open Innovation) and the Innovation Potential of SMEs. *Procedia Economics and Finance*, iss. *Technovation*, 29 (623), p. 1521-1526

knowledge and know-how for the improvement of the activity and developing the process of research and development, thus obtaining the minimization of the innovation costs<sup>37</sup>.

#### 4. Conclusions

The innovation process must be structured to include mechanisms of valorization of the knowledge from the internal and external sources, ideas, projects, methods and systems that facilitate the internal or external flows of this process. The flexibility and adaptability of the business models create opportunities that generate added value for the company.

The system of open innovation is especially relevant and very necessary for the SMEs of small sizes and with limited resources. This is why they must cooperate with large companies to use the knowledge and obtain the necessary equipment to unfold this process.

Open innovation offers the companies the increase of their chances to enhance their efficiency in creating value and to become competitive in the environment in which they operate. SMEs must however place special focus on the knowledge that they outsource in the context of the innovation process, as it may lead to an increase of market competition.

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