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ROLE OF DEVELOPMENT INSTITUTIONS IN FOSTERING INNOVATIONS IN INDIAN SMES – AN EMPIRICAL STUDY

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Abstract:

Innovation refers simply to the creation and application of a new idea to create value in a certain context. Some of these ideas and value creation applications may translate into incremental changes such as the introduction of additional features in a consumer product; while others may lead to radical or even revolutionary changes - such as the launch of the PC or the iPod. As global competition intensifies and information-based innovation becomes more important, the business sector has been internationalizing knowledge-intensive business functions, including R&D. At the same time, companies are increasingly opening their innovation processes and collaborating with external partners including suppliers, customers and universities. Creating effective innovation systems is vital for enhancing access to knowledge from around the globe and speeding up the conversion of that knowledge into value adding products and services. Such research takes a broad definition of innovation covering innovation in products, services, processes, business models and organizational structures. The rise of India as a growing power not only in Asia but also at the global stage would require not only a macroeconomic uplift but also a thorough realization of innovation by the SMEs. The study can dwell upon the significance of cluster based approach and business development service providers and ways and means to inculcate innovation amongst SMEs along with the best practices being followed in various countries that can be replicated in the Indian framework.

Index Terms: Knowledge Intensive Business Functions & Cluster Based Approach

1. Introduction:

Associated with high growth rates, SMEs in India are facing problems like technological obsolescence, supply chain inefficiencies, increasing domestic and global competition, fund shortages, change in manufacturing strategies and turbulent& uncertain market scenario. To face this scenario and compete with large and global enterprises, SMEs need to adopt innovative approaches in their working. With globalization, there is a need of a dynamic and self-sustaining culture of innovation and cluster based approach for the development of SMEs. Today's world economy has been characterized as a "Knowledge-Based Economy" with knowledge being the most important resource and learning being the most important process. Competitive advantage is less derived from access to physical resources and more from the ability of organizations and societies to generate ideas and to translate them into economic and social value. In the fast moving global order, knowledge and intellectual skills are critical to create and improve products and services, develop more efficient distribution and marketing methods &ensure customer satisfaction. New methods of information management & application are used to improve competitiveness. A knowledge economy is not about accumulating information, but using knowledge to improve performance; and that performance can be enhanced with innovation. Innovation is thus regarded as one of the most important factor in the Knowledge-Based Economy. This has become the driving force behind expanding global commerce and the rise in living standards.

2. Indian Scenario: The rise of India as a growing power not only in Asia but also at the global stage would require not only a macroeconomic uplift but also a thorough

realization of innovation by the SMEs. Nationwide entrepreneurship development with appropriate scale scope innovation will make all the difference for Indian SME segment. Considering the growing innovation in the competing countries including China, Japan, South Korea, Singapore etc. which are found high on Global Innovation index, FICCI conducted surveys to cover innovation in products, services, processes, business models and organizational structures. The results of this survey had tried to extend answers to certain pertinent issues which will act as an input towards developing SME schemes in the present five-year Plan.

The issues addressed through this study are as follows:

Which SME sectors are the most innovative?

What drives or hampers firms to undertake different innovative activities?

What are the strategies of firms that undertake them?

What is the impact of innovation on the firm's performance?

What is the firms' perception of the policy environment?

The study can focus on the significance of cluster based approach through series of success stories across the globe and ways and means to inculcate innovation amongst SMEs along with the best practices being followed in various countries that can be replicated in the Indian framework. The study should focus on changing landscape of SME in India and the opportunity that the Indian landscape offers for the growth of SME for innovation. The study can discuss the role played by cluster management and business development service providers to enhance the success of clusters. Nationwide entrepreneurship development with appropriate scale scope and innovation has made all the difference for Indian SME segment. The thrust areas for increasing the competitiveness of SMEs have included technology (including quality), procurement, skills development and finance. Innovation can manifest in several forms from operational efficiencies and business model optimizations to product and service-related novelties. Innovation is as much about execution as it is about creativity. Innovation in India is increasingly becoming local, with end-use conditions considered at the forefront of the process. This increase in local emphasis is reflected in the availability of an increasing array of products and services. Traditional strengths, such as affordable medicines, have been expanded to underserved markets beyond India. Several of the new innovations—such as the Nano car—have global potential. A growing number of these are affordable innovations across several sectors, namely, medicines and health care, drinking water purifiers, automobiles, IT services, cellular phone services, education, e-governance, and so on.

Factors witnessed as major factors affecting firm's capacity to innovate:

- ✓ The location of the firm within or close to a major urban area and thus in greater proximity to sources of new knowledge and ease in participating in knowledge flows.
- ✓ Educational level of the Owner/CEO/Manager, especially a degree from a technical university or engineering program that stimulates and facilitates problem solving.
- ✓ Global exposure through training, work or study abroad which opens opportunities for networking for knowledge flows and collaboration and creates an awareness of the utility to do so.
- ✓ Ownership structure of the firm, which influences the choice of products and processes as well as their subsequent modification or change.

- ✓ The firm's sector, which provides a measure of the stimulus to innovation resulting from the higher R&D intensity of the sector & nature of competition within the sector.
- ✓ The size of the firm, which is related to its access to resources to and opportunities for knowledge scanning to support a process of innovation.
- ✓ Exports (as a percentage of sales) and whether this is rising as an indicator of the firm's competitive interests and abilities, or market share of the firm in Industry.
- ✓ Habits and practices of innovation as reflected in having innovated previously.

3. Areas of Innovations Witnessed in India so far:

Innovations in 'business models Innovations' in India had been largely product centered. Not much thought has been applied to innovating business, marketing, and delivery processes that would give superior benefits to consumers. This focus is now changing. These days, world-class companies such as Microsoft, PepsiCo, IBM, Cisco, Nokia, GE, Xerox, and so on are using India as their research and development (R&D) base to pilot next-generation business models and organizational structures and to develop affordable and sustainable solutions that can then be marketed on a global scale. In doing so, these firms are synergistically integrating their India R&D operations into their global innovation networks. But that is only one part of the story; innovation in India is largely driven by Indian entrepreneurs. Innovation Readiness of Indian MSMEs Innovations enabled through IT interventions. Indian SMEs are also implementing new and innovative information and communication technologies on a large scale like Software as a Service (SaaS) and Infrastructure as a Service (IaaS). Through the dimensions of technological innovations, SMEs intend to achieve cost-effective, improved versions of existing products to gain and maintain technological advancements. There have been projects to boost the livelihood of rural communities, targeted offerings to allow rural enterprises and farmers to enrich their productivity through ICT-enabled techniques that provide useful information at the click of a button. Tens of thousands of self-help groups—such as those comprising artisans in remote villages—are being enabled with mobile services so that they can market their offerings optimally and obtain an appropriate return on their time and effort. Project Shakti, co-created by Unilever and MART, & the e-Choupal initiative of the business conglomerate ITC are pioneering examples of innovative delivery and procurement models.

ITC's e-Choupal Initiative: is aimed at selling agri-products as well as sourcing raw materials. The company established an information technology (IT)-based exchange that provided information on agri-cultural prices, weather, and so on, gaining trust among farmers. Further, it persuaded the existing agricultural mandi (market) agents to be e-Choupalsanchalaks (operators), thus maintaining and working with existing rural relationships. Connecting the unconnected has been pushed globally by the GSM Association with programs such as the Emerging Market Handset development (ultra-low cost). Locally the Indian government has been playing a major role in uplifting the 600,000 villages with tools such as the Universal Services Obligation Fund.

Project Shakti: is an innovation in the business model. It aimed to effectively increase the reach of fast moving consumer goods in rural areas; women from existing microfinance groups were hired as the last mile distributors for Unilever household products and links were established for credit from banks via the microfinance mechanism. Unilever provided a guarantee against default, thus validating the viability of the fault, the viability of the business model.

Innovation Readiness of Indian SMEs: The National Innovation Foundation (NIF) is leading several initiatives for rural innovations. With the Society for Research and Initiatives for Sustainable Technologies and Institutions (SRISTI) and Grassroots Innovations Augmentation Network (GIAN) programs, NIF has taken grass-roots innovations to a new level. The biggest IT-enabled innovation project in the world is the building of a unique identification (UID) for all Indian citizens. The unique identification project was initially conceived by the Planning Commission as an initiative that would provide identification for each resident across the country and would be used primarily as the basis for efficient delivery of welfare services. It would also act as a tool for effective monitoring of various programs and schemes of the Government. This has brought a revolution for Aam-Aadmi (ordinary people) in India, whose transformation into e-nagrik (e-citizens) has made the quality of their lives and livelihoods by making services such as e-health, e-banking, and e-learning more accessible.

4. Assessing the Basic Objective of Carrying Out Innovations:

It can be taken up on broad bases with following Constructs. Innovating companies can be asked about the objectives of their innovation activities; Likert scale analysis can be carried out on 1 to 5 scale for the following listed Constructs:

- ✓ Improve product quality Learn about new technology.
- ✓ Reduce production cost Reduce labour costs.
- ✓ Extend product range Improve cycle time.
- ✓ Increase market share Improve production flexibility.
- ✓ Open up new markets Reduce energy consumption.
- ✓ Fulfill regulations& standard.
- ✓ Comply with domestic regulation.
- ✓ Reduce environment effects.
- ✓ Improve work conditions for employees.

5. Conclusion:

The survey research on this topic can be taken up at State level; the paper only gives a broad outline of how it can be initiated. Cluster based approach is supposed to give more specific outcomes of the research. An innovation in the SME sector is very much essential for a developing economy like ours; funding of these innovative ideas to implementation is one of the constraints in the Indian scenario. This aspect also can be included in the Construct and feedback obtained from the respondents.

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