

Innovative Competencies Framework for SMEs of Pakistan: A Conceptual Framework

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Abstract— what kind of innovative competences is adopted by SMEs of Pakistan? Although previous studies suggest that innovative competencies play a significant role in firm innovativeness and competitiveness. Small and Medium Enterprises (SMEs) are the major driving economic forces for many developing countries and least-developed countries. Pakistan is not an exception to that. The economy of Pakistan is largely depending on small organization. Due to their importance, much emphasis has been given by government and researchers. However, the focus of this study is to provide a conceptual framework for the innovativeness of SMEs of Pakistan.

Key Words: *SMEs, Innovation, Competencies, Firm Performance*

1. INTRODUCTION

In the economic development of a country, the importance of small and medium enterprises (SME) cannot be underrated. The proper identification of the role of SMEs comes from the G-8 Group meeting (1997) in Denver, meeting highlighted the significant contribution of the SME sector to employment and dynamism in the most industrialized world. The United Nation Industrial Development Organization (2002) put emphasis that this experience can be used for the development and the sustenance of the SME sector in developing countries [1]. The potential of SMEs to promote domestic-led growth in new and existing industries and to strengthen the flexibility of the economy in a competitive and challenging environment are inarguable [43]. Due to their sheer numbers, size and nature of operations, this segment of the economy has received great attention towards acceleration of economic growth and made an important contribution towards productivity and expansion [2]. It is also considered as a backbone for economic development of a country [3] [4].

The developed and developing countries extensively recognized the strategic importance of small and medium enterprises [5]. SMEs play a

significant role in the development of the national economy of any country. SMEs accounts for almost 95 to 99% of the business population all over the world and are deeply involved in economic development of countries [6] [7]. In UK SMEs represent 99 % of the whole business population and less than 1% is considered to be large corporations (Organization with more than 250 employees) [8]. In South Korea the total share of SMEs in terms of employment is 70% [9]. Malaysian SMEs account for about 48% of the manufacturing sector [6]. There are about 118,648 SMEs in Thailand representing around 98% of the total firms in the manufacturing sector [10]. The economy of China is becoming the largest and fastest economy in the world and SMEs are representing 99% of the total number of firms and about 70% of overall employment [11].

Developing economies have started to give great attention to SMEs on its critical role playing in the development of the country's economy [12]. The majority of the SMEs struggle to increase productivity, to get sustained competitive advantage and satisfactory rate of return on investment. It is not an easy task to achieve such objectives in an economic state where traditional and informal business practices are still being applied. However, it is a challenging task for smaller organizations to adopt innovative strategies.

Smaller, scarce resources and informal organizational settings are found most likely to benefit from following innovation strategies [9] [13] [14]. Most of the recent studies emphasizing the fact that the contribution of small organizations toward the economy is greater than large organizations, thus the economic activity is shifting

from larger enterprises (LEs) to SMEs [15] [16] [17].

According to Baldassarri and Saavala (2006), that in order to sustain and maintain their stability in increasingly highly competitive markets, an organization has to focus more on (their way of doing business) innovation [18]. More emphasis has been put on innovation by various researchers such as Rainey (2005), stating that focusing on innovation is the only solution in order to obtain creative advantage, increase firm performance [19] create the best policy [20] and obtain better financial performance [21] [22] [23]. In order to be successful in business and to sustain its operations, the entrepreneur or small business manager needs to have an innovative frame to compete against large organizations.

The current situation of research on SMEs in Pakistan is at their initial stage [24]. SMEs are lacking innovation related research, and there is no innovation survey conducted on Pakistani SMEs as claimed by Bashir et al., (2010) [25]. The government is playing an important role in the provision of a supportive and innovative environment for the development of any sector. If we look at the current situation of Pakistan there is no comprehensive governmental policy regarding innovation to foster business activities in Pakistan [26]. Thus the current situation is far away from the global trend and SMEs are surviving on their own efforts. Therefore a clear understanding is needed on the philosophy behind some firms growing successfully while others are un-successful although they are surviving in the same environment. However an attempt is needed to identify missing links for the unsuccessful and low growth SMEs to achieve sustainable performance. So due to the importance of SMEs in economic development and lack of empirical studies, this area is selected for further investigation in this research.

2. Literature Review:

Innovation is defined as the creation of new combinations [27]. The economic and social development of a country largely depends on the continued launching of new products. The new arrival of products and services provide

employment opportunities; to reduce the importing and enhancing the nation's standard of living. Therefore, the innovation got great attention and the state has become more concerned about innovation [43] [46]. In addition, Innovation in its various forms has long been recognized as critical to a firm's competitive advantage [28] [29] [30].

Brogren, (2011) argues that "research converts money into knowledge, while innovation converts knowledge into money" [31], so it is important for organizations to innovate [32] [33]. Innovation is not only required for financial gain and easier life, but it is also necessary to make our society healthier and more sustainable.

Due to this changing business environment, SMEs are experiencing increased competition as foreign firms has gained access to local markets, and it is therefore crucial for SMEs to respond efficiently and sustain their competitiveness against both the local and international competitors [34].

Thus, firms have only two basic functions; to know the market demand and to produce new (Innovation) commercially viable product and services. To maintain and sustain their contribution towards economic development, it is necessary to focus more on innovation [35] [46]. Furthermore, innovation is the essence of any organization in this globalized world and crucial to the enhancement of quality of life.

However, a number of firms are still struggling with developing effective innovations. This is especially true for SMEs, which have relatively insufficient internal resources and expertise. Hence, the identification of the main innovative competencies is required for both policy makers and entrepreneurs to focus on it, to be successful in their innovative efforts.

3. RBV and Innovative Performance

Organizations have a bundle of resources, while the combination of these resources in such a way that leads toward competitive advantage and marked critical resources is a challenging task for small organizations. The internal resources and capabilities of a firm create competitive advantage if it's unique, valuable, rare and difficult to be imitated and replaced by competitors [36] [37]. Thus, innovation is a source of competitive

advantage and a basic factor of a firm's success [38] [43] [44] [45] [46]. Different RBV theories show a strong link between RBV and innovation. Focusing on critical resources and adopting and capturing innovative competencies leads to securing and sustaining innovative and competitive advantage of firms over others.

4. Innovative Competencies

Innovation has been recognized as the key factor towards competition and sustainability. Innovation competencies are the organizational resources within which innovative outputs may be supported. Highly successful and high performing innovators consistently bring new high quality products to the market faster, more frequently and at a lower cost than competitors due to their innovative competencies [39].

In order to accelerate the innovation process one needs to understand what factors are critical to the successful implementation of innovation [40]. Most of the prior research has either explicitly or implicitly viewed firms as an independent entity searching for competitive advantage from external sources or their own internal resources and competencies [41]. Innovative competence "reflect the firm's ability to integrate, build and reconfigure internal and external resources to develop and successfully commercialize new products and services, i.e. Innovation" [42]. A competency in its broadest sense enables a firm to grow and take advantage of its opportunities. Therefore, for the sustainable development of SMEs, innovation is the only solution so the identification and adopting of missing links (Innovative Competencies) are crucial for organization development.

5. Discussion:

In the 21st century economy, having strong innovation skills is critical. SMEs are given more attention for cultivating an innovative environment as compared to large organizations. Most of the developed nations commit to build on or enhance the inner innovative ability of their SMEs. However, due to the high importance of innovation in the current hyper competitive and globalized world, most of the developed and developing nations around the world are setting their future

targets. Leading companies like IBM, GE, Intel, AT&T and many other National and Multinational Organizations have been in the news in 2012-13 regarding their initiatives aimed at building a culture of innovation. Therefore, it revealed that a great focus is needed to know the missing link to adopt it and to be innovative.

6. Conclusion:

It is concluded from the above literature survey, that every organization has to think about its future innovative plans. Therefore, the focus of this study is to provide a list of missing links that are required for the innovativeness of SMEs of Pakistan, to be focused on and to sustain and maintain their innovative position.

7. Conceptual Framework:

Innovation and their importance towards SMEs performance that has been discussed in the previous sections, leads us toward the development of conceptual model. The model will be used for exploring the Innovation and SME performance in Pakistan. Various relevant studies discussed above generally affirm the idea that innovation has a positive impact on firm performance. Therefore, it need to be known in-depth those aspects that are strongly associated with the innovative performance.

It is evident that one of the major motivations for SMEs to innovate is to gain access to and adopt innovative competences. Furthermore, the more organization has the access to their innovative competencies the organization will be more innovative. Thus, after careful consideration of the research questions and objectives of this study and review of current literature stated above, we proposed a conceptual framework for the proposed study (See Figure: 1).

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Figure: 1 Conceptual Framework

