

Development strategies of SMEs: interconnectivity to regional innovation strategies and support programs

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Abstract

The success and growth of regions is based on its capacity to create, disseminate and apply knowledge, to innovate and develop new technologies. When discussing regional development processes small and medium sized enterprises (SMEs) must be taken into consideration because this group represents important actor of regional development. In this context the attention is paid to examining the relationship between implementation of regional innovation strategies and innovation strategies (processes) of SMEs in the Prešov Region. The aim of this paper is to present partial results of the survey focused on the creation and implementation of innovative strategies at the level of SMEs within the Prešov Region (PSK).

Key words: innovation, strategy, regional innovation strategy, small and medium sized enterprises

1. INTRODUCTION

SMEs play a crucial role for the acceleration of economic growth as well as for socio-economic development of the regions. Developed sector of SMEs is a pillar of developed economy (at national, regional and local level). According European Commission (2013) SMEs are the backbone of Europe's economy and are at the heart of regional policy. They represent 99% of all firms and contribute to almost 60% of GDP and around 70% of the total EU workforce. SMEs and entrepreneurs are crucial for fostering growth, for creating quality jobs and for improved social integration. Due to their more flexible structures and more dynamics the SME act as agents of change and give important contribution for value creation to all the society (Dumbrava et al., 2007).

Many empirical studies when examining innovation potential perceived large firms as those that have better innovation potential – according to Heimonen (2012) it was based on the hypothesis that large firms tend to have a resource advantage over smaller ones in terms of development and commercialization of new technologies. However, small firms are widely regarded as promoters of economic growth (Westhead & Storey, 1994, in Heimonen, 2012) and as being capable of creating, transferring and exploiting innovations (Autio, 1998; Fontes, 1997; Kuratko & Hodgetts, 2001, in Heimonen, 2012). Moreover, small firms have a strong positive effect on employment (Storey, 1994) and their presence alongside large companies “provides important competitive and structural balance to industries and marketplaces that would otherwise be dominated by a few large players” (Beaver &

Jennings 2000; Peacock 2004, in Wang et al., 2007). In addition, SMEs (in terms of entrepreneurial activity) often occupy fragmented or niche markets which large firms either cannot economically enter or are reluctant to enter because of risk-return considerations (Brouthers et al. 1998, in Wang et al., 2007).

2. INNOVATION STRATEGIES OF SMALL AND MEDIUM SIZED ENTERPRISES

Innovation is associated with enhanced performance and success of firms. It may refer to different kinds of “newness” regarding products, production methods and technologies, markets, and organizational configurations (Varis & Littunen, 2010). The way of innovation execution in the companies is not easy. This raises the need for properly formulated and implemented innovation strategy. The innovation strategy is a part of overall strategy of a company/enterprise. It defines the role/importance of innovation and sets the direction for innovation processes within the company.

The negative phenomenon in current practice is the lack of strategic planning in SMEs. Wang et al. (2007, p.3) argue that SMEs engaged in strategic planning “are more likely to be those enterprises that are more innovative, that have more newly patented products, that employ new process and management technologies, and that achieve international growth”.

Wang, Walker and Redmond (2007) tried to explain the lack (or low levels) of strategic planning in SMEs. The most frequently mentioned barriers of strategic planning are:

- Lack of time
- Lack of expertise
- Inadequate knowledge of planning processes
- Reluctance to share strategic ideas with employees & others
- Environmental uncertainty/turbulence
- Size of business
- Type of industry
- Internal implementation barriers
- Business life-cycle/stage of development

Another problem of the strategic planning deficiency could be the reluctance of company's managers-owners. In owner-managed SMEs power and decision-making processes are centralized i.e. concentrated in the entrepreneur hands. Owner-managers tend to be less amenable to others' advice and are reluctant to delegate decision-making to others (which easily leads to reduced innovativeness). Also, strategic decisions are often framed within the constraints of family and individual goals, rather than maximization of firm potential (Dyer & Handler, 1994; Dobbs and Hamilton, 2007, in Varis & Littunen, 2010).

3. SURVEY ON CREATION AND IMPLEMENTATION OF INNOVATION STRATEGIES AT THE LEVEL OF SMALL AND MEDIUM SIZED ENTERPRISES

During January 2014 was carried out partial survey on the creation and implementation of innovation strategies in SMEs. The survey was conducted within the Prešov Region (Prešov Self-governing Region) and on the survey participate 36 respondents – representatives of SMEs in the region.

Innovation process is critical for creating unique products and thus for sustaining company's growth. That is why a well-defined, integrated and implemented innovation strategy has a key role. The aim of

the survey was to determine whether SMEs in the Prešov region have (elaborated) formalized development (innovation) strategy.

Public research and development funding represents one of the most important instruments for supporting and increasing innovation and the generation of intellectual property rights in firms (Santarelli & Piergiovanni, 1996, in Heimonen, 2012). Structural Funds as long-standing supporters of SMEs have become a major instrument in achieving the Europe 2020 objectives for smart, sustainable and inclusive growth (European Commission: Guidebook Series, 2013). Following this, we investigated to what extent the preparation of their development (innovation) strategy was based on existing innovation strategies and support programs, which are publicly available.

Regarding the aim of the survey we investigated the answers to the following questions:

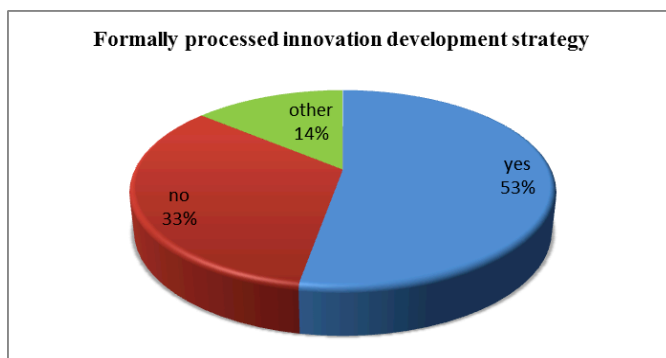
1. Does surveyed company/enterprise have formalized innovation development strategy?
2. Which of the available public support programs and strategies do or did companies/enterprises apply and embrace when creating their own development and innovation strategy?
3. Do or did surveyed company/enterprise participate in the creation of regional innovation strategy (or other local/regional strategies)?

Presentation of results of the pilot survey among SMEs in region

1. Existence of formally processed innovation development strategy:

To the question concerning the existence of formally processed innovation development strategy the surveyed companies responded as follows: of the total 36 enterprises 19 companies have and 12 companies do not have formally processed innovation development strategy. Five companies chose a response "other" (Figure 1).

Figure 1 Existence of formally processed innovation development strategy



Source: authors

2. Using of regional innovation strategy in formulating the company's development strategy:

In the survey, we investigated whether in formulating the company's development strategy was used/applied regional innovation strategy. The results show that only a small part (11%) of SMEs in the Prešov region used regional innovation strategy in developing/formulating its own strategy. The results are shown in Figure 2.

Figure 2 Using of regional innovation strategy in formulating the company's development strategy

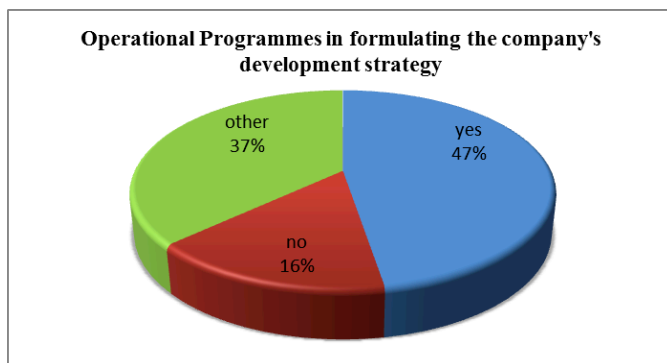


Source: authors

3. Using of Operational programmes in formulating the company's development strategy:

In response to the previous question, we also investigated whether in formulating the company's development strategy was also used Operational programmes (Structural Funds 2007-2013). Respondents in formulating the company's development strategy to a greater extent use/apply Operational programmes (47% of them replied in the affirmative) (see Figure 3).

Figure 3 Using of Operational programmes in formulating the company's development strategy:

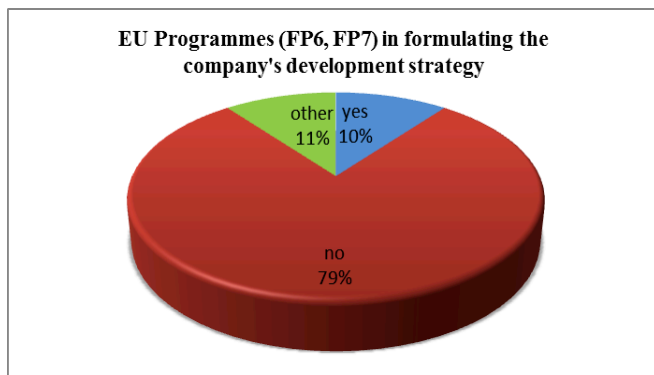


Source: authors

4. Using of EU programmes (6th and 7th framework programme) in formulating the company's development strategy:

Small and medium enterprises in the region when developing their own strategies only to a minimum extent use EU programmes since only 10% answered the question in the affirmative and almost 80% answered in the negative (Figure 4)

Figure 4 Using of EU programmes (FP6, FP7) in formulating the company's development strategy

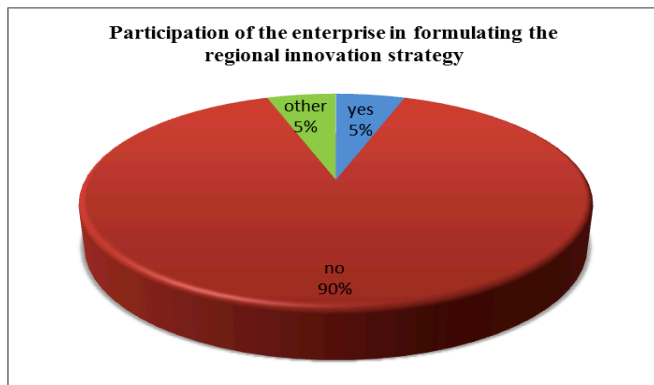


Source: authors

5. Participation of the company/enterprise in the creation of regional innovation strategy (or other local/regional strategies):

The results are not very positive, since only 5% of small and medium enterprises participate or participated in the creation of regional innovation strategy (or other local/regional strategies) (Figure 5).

Figure 5 Participation (present/past) of the enterprise in the creation of regional innovation strategy



Source: authors

4. SUMMARY

The survey results showed that companies in creating their own development of innovative programs to the greatest extent use the support programs based on the Structural Funds (47 %). This is mainly for practical reasons, since those programmes (Structural Funds) are used by companies mainly for investing activities (technological innovation based on technology transfer and modernization of production base). These results are consistent with the arguments of European Commission (Guidebook

Series, 2013) according to which Structural Funds are most adapted to the local context in which small and medium-sized enterprises develop mainly due to shared management and the involvement of regional stakeholders in the definition and implementation of operational programmes. “The shared management of Structural Funds as well as the joint monitoring and evaluation procedures are examples of the partnership approach put in practice” (European Commission: Guidebook Series, 2013).

Knowledge from the regional level (mainly RIS – regional innovation strategy) and EU level (FP programs and others) are of little interest for companies (around 10% positive responses) while in further and broader research we assume even smaller number of about 5% or less, which follows from the statistics of involvement of Slovak companies to FPs – this is either linked to small and over time late benefits (RIS) or to excessive difficulty of obtaining support (EU programmes, language barriers, high demands on the expertise, time consuming benefits etc.).

Directly related to this issues the share of companies directly or indirectly participating in the creation of regional (local) development plans (notably RIS), among which were recorded only 5 % of positive responses. This is due to the involvement of the companies, but also due to the methods of work of support structures of Self-governing region in the preparation of RIS and the associated mapping of strategies and needs of SMEs.

The results obtained in our survey correspond with the findings of other studies. As indicated by Wang et al. (2007) (referring to the works of: Robinson & Pearce, 1984); Sexton & van Auken, 1985; Berman, Gordon & Sussman, 1997; Orser, Hogarth-Scott & Riding, 2000; Sandberg, Robinson & Pearce, 2001; Beaver, 2003) research has consistently shown that most SMEs are not engaged in strategic planning.

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