

THE ROLE OF INNOVATION AND ENTREPRENEURSHIP IN SMALL AND MEDIUM BUSINESSES

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***Abstract:** Entrepreneurship and small to medium-sized enterprise creation are significant when creating employment and business opportunities in the global economy. The quality of entrepreneurship must be taken into consideration by governments, becoming the main focus of policy measures. Entrepreneurship is seen as a major factor in economic growth, and understanding how creativity and innovation impacts on the process is extremely important.*

Key words: entrepreneurship, innovation, SME

INTRODUCTION

Despite a rich and diverse literature, capturing the essence of entrepreneurship and the role of entrepreneur for the economic system seems to be a difficult step for economists [3]. Students are also not able to study the discipline of entrepreneurship in many countries, because, according to Hofer, A. et al. [8], entrepreneurship education is at present not sufficiently integrated into curricula.

In addition to the impact of culture and environmental factors, education, mentoring and other entrepreneurial training are perceived to influence entrepreneurial activity; substantial investments have been made by many nations to educate, train and facilitate the development of entrepreneurs [13].

However, while academic studies have long recognised the importance of entrepreneurship, policy makers have only recently explicitly discovered it. Entrepreneurship is increasingly recognised as an important driver of economic growth, productivity, innovation and employment, and it is widely accepted as a key aspect of economic dynamism: the birth and death of firms and their growth and downsizing. [17].

MATERIALS AND METHODS

Entrepreneurs are generally considered to be people who take risks. As a group, they are regarded as heterogeneous in nature by falling into categories that range in structure from examples such as Bill Gates who grow their start-ups into multibillion-dollar businesses to the small neighborhood shops. [2]

Financial capital represents a necessary ingredient for entrepreneurial survival and growth [6].

Personal savings, for example, may be difficult for entrepreneurs in emerging economies to accumulate due to kinship obligations, extreme poverty, or a general lack of access to formal banking services [23]

According to Petrakis and Kafka (2016): “entrepreneurship causes economic growth, mainly due to the fact that the entrepreneur is a potential factor of production. Similarly, a country’s economic growth promotes entrepreneurship, since it increases total demand and generates needs that create a fertile ground for the development of entrepreneurship”.

Entrepreneurship is a state of mind that involves motivation and the ability of a person or organization to identify an opportunity and to use it by adding value or gaining a benefit.[9]

RESEARCH RESULTS

In the international economic theory there is a multitude of definitions of SMEs, many starting from partial differences regarding the size of the company and the ways of quantification. This was determined by the historical, economical and institutional conditions present in each country, and thereby each state defines their enterprises according to their own existing economic and political conditions.

Thus according to the User's guide to the SME Definition (2015) written by European Commission, "small enterprises are defined as enterprises that employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed EUR 10 million. Medium-sized enterprises are defined as enterprises that employ fewer than 250 persons and either have an annual turnover that does not exceed EUR 50 million, or an annual balance sheet not exceeding EUR 43 million. Still if an enterprise has access to significant additional resources it might not be eligible for SME status".

From various definitions we can extract the most important features and the advantages of SMEs, which can be described by the following: SME represents the middle class in an economy, thus its backbone; SMEs contribute to the creation and development of big companies; respond quickly to the needs of the market, adapting to their dynamics; SMEs support the competitive mechanism.

The organizational system of SMEs has a high flexibility mainly generated by:

- low resources and a small volume of activities, causing a high adaptability to environmental changes,
- rapid notification and understanding of market signals,
- constantly adjusting the company's objectives to the business environment dynamics.

We can understand that the entrepreneurs need to mobilize their resources and adapt to the harsh economic environment, it is thus necessary for them to try self-improving and perfecting themselves when constantly confronted with a dynamic market.

Dutta and Banerjee [5] consider that in this globalized economy of the world, small and medium sized businesses have been playing a dominant role since the last few decades. The small businesses' contribution to a nation's economy cannot be overlooked because of its inherent capital-employment generation capacity, ability to nurture the spirit of technological innovation and entrepreneurship and their locational flexibilities.

The combination and the mix between the large company capitalism and the entrepreneurship can be considered a recipe for success. The possible transformation into a regime of large companies, less entrepreneurial, characterized by rigidity, insufficient incentives and fewer innovations will cause future problems for the economy of any state.[1]

Grigore [7] observed that statistics from almost all countries reveal that SMEs are predominant in the economy, accounting for over 99% of all companies, with substantial shares in GDP and job creation. Two-thirds of newly created jobs are due to SMEs.

Entrepreneurs and entrepreneurs are directly connected with SMEs, because most of the businesses in which the entrepreneur plays a prominent role are small and medium-sized enterprises.

Joseph Alois Schumpeter [22] states that "the function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials, or a new outlet for products, by reorganizing an industry, and so on."

Koster and Kumar [10] revealed that entrepreneurs introduce new products and new production processes in an economy. In the process, incumbent firms are forced to

innovate in order to withstand the pressure generated by new firms. As a result, entrepreneurship has a rejuvenating effect on economies.

Technology and innovation are key sources of growth in economic activity, as there were studies confirming that there is correlation between the implementation of scientific and technological creative outputs and entrepreneurial creativity. [14]

Entrepreneurship is closely linked to flexibility and knowledge, two factors that are most important in the modern global economy. Lack of innovation is one of the elements that can affect companies' ability to grow.

Many times the entrepreneurs only start with a simple idea, and then they use the needed resources to turn this idea into a working business. Entrepreneurship often offers the only path to success that can be chosen without taking the risk of denying an opportunity.

Innovation and creativity are interrelated processes. You can have innovation without a prior invention. Innovation means to try to satisfy the customers better than the competitors. Entrepreneurs are trying to recognize and detect new opportunities and then bring in innovations to exploit these opportunities. Flexibility of the entrepreneur's vision and his eagerness in finding and trying new directions will help in that regard as well.

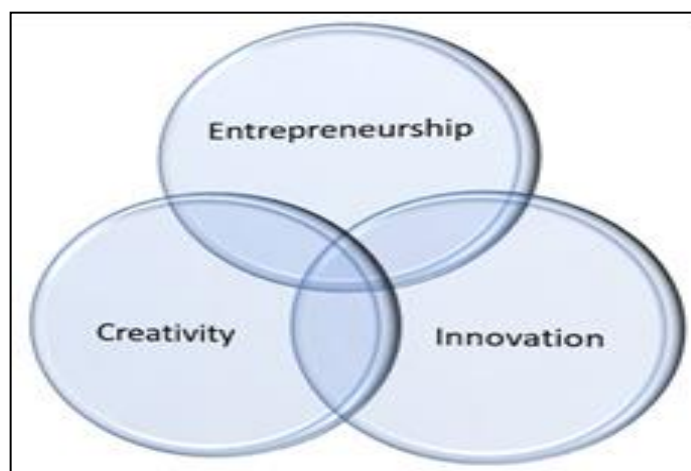


Figure 1. Entrepreneurship, creativity and innovation connections

Due to the continuous market dynamics, fierce competition and increasingly demanding consumers, innovation must have an integrating and catalyzing effect, being at the center of economic growth.

According to Rees and Porter [21] the overall consequence of the changes brought by new technologies is that companies need to adapt, not only to continuous changes, but also to an accelerated pace of change.

Lerner [12] observed that the most effective programmes and policies aimed at spurring venture capital and entrepreneurial innovation are those which lay the foundations for effective private investment. The most effective policies are likely to focus on increasing the efficiency of long-term private markets, a momentum of short-term funding in times when the market is already active.

Mittelstädt & Cerri [14] realized that there is a connection between innovation and entrepreneurship: the policies for entrepreneurship and SMEs are reinforcing innovation through supporting business creation and development, at the same time policies that promote innovation tend to stimulate firm creation.

SMEs are supplying many of the larger scale enterprises with raw materials and other necessary parts. Public sector benefits from this aspect as well, entrepreneurship

becoming an essential cog wheel in the mechanism of turning the public sector into a realistically feasible and even profitable structure.

Thereby SME performance depends on the effective implementation of entrepreneurial concepts and approaches seen from the perspective of management science.

According to Chatterji, Glaeser & Kerr [4] there are entrepreneur oriented government policies that have their advantages as “allowing more skilled immigrants, strengthening education systems, and eliminating unwise regulations”.

We have to take into consideration that entrepreneurial actions are almost everytime motivated by the business environment and economic conditions, by cultural, social and institutional factors.

Miller [15] suggests that the entrepreneur's qualities enable him to “pick himself up after failures, and to continue innovating, renewing, and venturing forth even after having achieved success”.

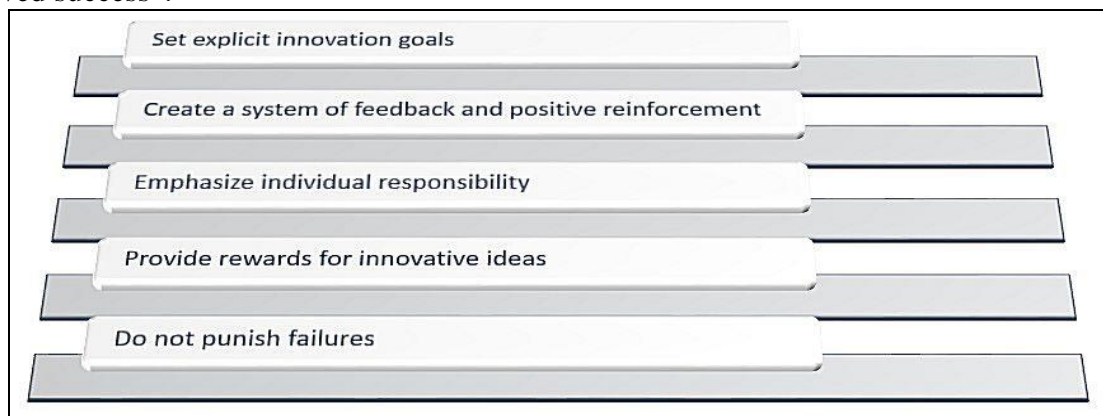


Figure 2. The five important practices for establishing innovation-driven organizations

Source: Adapted from Kuratko (2016)

For example the European Commission’s DG GROW Strategic Plan 2016-2020 aim is to help entrepreneurs with great business ideas obtain the necessary support to start up, grow and thrive, through promoting the use of advanced technologies and business models, improving the framework conditions for innovation and investment, and enabling the development of the collaborative economy as an innovative business model.

The development of the IMM sector in the EU has seen an upward dynamics, with policies and programs showing an increasing interest of the Union in the development of this sector since the early 1980s.

In most OECD economies small and medium-sized enterprises account for over half of all employment and value added of the business sector. [18] In Romania many new enterprises are created, but do not necessarily grow strongly afterwards. [17]

The overall objectives of the European SME policy focus on promoting entrepreneurship, encouraging innovation, developing an environment conducive to business, and a normative framework geared to loyal competition.

CONCLUSIONS

Creativity and innovation are essential to the entrepreneurial spirit and are directly influenced by the education and a positive attitude toward science. [19][20]

It has been shown that small businesses bring unrivaled benefits to an economy as well. Due to the important economic and social role and considerable significance, the SME sector deserves special attention. Thus SME promotion and support policies must pursue short-term assistance and advice, which must also be supported by appropriate

economic conditions and through the capitalizing on the opportunities attracted by these SMEs.

The economic growth process requires a set of personal skills that enable the entrepreneur to implement the opportunities presented to him. Entrepreneurship and innovation are essential engines for the global economy. The governments should start promoting entrepreneurship and entrepreneurial culture more and also to improve framework conditions for the sustainability of SMEs.

Stimulating entrepreneurial activity by the political, administrative and decision factors is of particular importance in today's global economy. At the same time the ability of companies to innovate can be developed by adopting a new mentality and an innovation culture.

Entrepreneurial businesses are focused on creating value. Entrepreneurs have created significant changes in the economy, industry and society in general and they will help creating markets for the relevant innovative goods and services.

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