Barbados Small Business Association

SME Development in CARICOM: New Approaches, New Solutions

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“The world is changing more rapidly than ever before … and companies that don’t keep up are often left behind.”

-- *Executive Focus, April 2001*

"The world is not changing, it has changed, and this means that the future is not what it was! The only certainty for the future is change and this will occur at an increasingly rapid rate."

-- Richard Bernal, Director General, CRNM

SME Development: New Approaches, New Solutions

SMEs in the National Economy

- No standard definition of SME
- Common definitions based on:
  - Number of employees
  - Value of assets
  - Level of turnover

SMEs in the National Economy

- General acceptance that SMEs play an important role in the economy from standpoint of:
  - Job creation
  - Investment
  - Linkages
  - Exports
  - Innovation

SMEs

- Small and Medium-sized Enterprises form bulk of enterprises in ALL economies

Asia: **90% of all enterprises are SMEs**

USA: **88%**

OECD: **95%**

SMEs

- Caribbean firms ALL small by global standards
- This is a disadvantage in global marketplace because they:
  - cannot realize economies of scale
  - are unattractive to potential investors/partners
  - cannot spend large sums on marketing/R&D

Today’s Economy …

- … Is GLOBALIZED
- … Is often WEB-BASED
- … Is KNOWLEDGE-BASED
- … Offers new CHALLENGES and OPPORTUNITIES

SME Competitiveness

- In the new knowledge economy, competitiveness is increasingly based on firms' ability to provide high value-added products and services at competitive prices.

SME Competitiveness

- **Globalization and trade liberalization have made it important for SMEs to become internationally competitive even when competing exclusively in domestic markets.**

SME Competitiveness

- In order to be internationally competitive, SMEs need to constantly improve their efficiency, reduce production costs and enhance the reputation of their products and services by …..

- Investing in R&D
- Acquiring new technology
- Improving management practices
- Developing creative and appealing designs
- Marketing their products and services

In a nutshell, SMEs can enhance their competitiveness through …

INNOVATION

Innovation

- The process that leads to the introduction of new products or services to the marketplace, or the adoption of new ways of making products or services.
- Refers to technical advances in how products are made or shifts in attitudes about how products and services are developed, sold and marketed.

Innovation

- **Schumpeter (1934) identified five types of innovation:**
  - i. The introduction of a new good (or service)
  - ii. The introduction of a new method of production
  - iii. The opening of a new market
  - iv. The conquest of a new source of raw materials
  - v. The creation of a new type of organization

Entrepreneurship and Innovation

- **Innovation is a core function of the entrepreneur**
- Other functions are:
  - Recognizing opportunity
  - Commanding resources
  - Taking risks
  - Building organizations

Entrepreneurship and Innovation

Being in business does not make someone an entrepreneur!

- Not all businesspersons are entrepreneurs
- Some businesses very un-entrepreneurial
- Many big businesses based on simple import/export ideas

"An **entrepreneur** is an individual who manages a business with the intention of expanding that business and with the leadership and managerial capacity for achieving their goals, generally in the face of strong competition from other firms, large and small.

In the main, entrepreneurs operate in SMEs and their firms, keeping ahead of competitors through better management and the introduction of new products and processes, can be described as innovative."

- Colin Gray and John Allan, 'Entrepreneurship, Resistance to Change and SME Growth' (2000)

However, other research by the same authors suggests that **only a minority of SMEs have a strong growth motivation on the management capacity for growth and innovation.**

Importance

- Entrepreneurship is the means by which societies extract value from innovations.
- Innovation is what makes the difference between competitive and non-competitive firms.
- Investment in R&D is at the heart of innovative behaviour in firms.
- Thus, emphasis should be on the capacity of SMEs to develop and apply innovations in products, processes and organization.

Some Experience from the USA
(2002 data)

- The percentage of highly innovative US firms (i.e. those with more than 15 US patents in the last 5 years) that are defined as small firms increased from 33% in 2000 to 40% in 2002.
- There were twice as many large firm entrants as large firm drop outs, but 4 times as many small firm entrants as small firm drop outs.

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Some Experience from the USA
(2002 data)

- Small companies represented 65% of the new companies in the list of most highly innovative companies in 2002.
- The industries in which the number of small firms increased most rapidly were chemicals, pharmaceuticals, biotechnology, medical equipment, office equipment and cameras, and telecommunications.

Some Experience from the USA
(2002 data)

In certain key technology areas/industries:

- Small firms are an attractive destination for elite inventors
- Large and small firms rely heavily on small firm technology
- There are increasing numbers of highly innovative small firms

- **In these industries, a higher percentage of small firms tended to be younger, suggesting that they may have been created to develop or exploit a new invention.**

The Importance of R&D

- Centrality of **knowledge** as a source of productivity gain and competitiveness
- The shift towards knowledge-based industries has placed increasing importance on intangible assets as a source of competitive advantage of firms
- Knowledge derives partly from investment in R&D

The Importance of R&D

- The knowledge-intensity of OECD economies continues to increase and private sector investment continues to rise
- Average gross expenditure in R&D among 29 OECD member countries in 2002 was 1.73% of GDP, with the average per capita spent on R&D being US$416
- Average gross R&D expenditures among G7 countries was 2.4% of GDP, with the average per capita expenditure being US$730

R&D in the Caribbean

- In general, R&D expenditure as a percentage of GDP in the Caribbean region is far below that of the OECD and, in particular, that of the G7.
- Data available for Jamaica and Guyana in the 1980s show that gross R&D expenditure as a percentage of GDP was 0.04% for Jamaica (1986) and 0.23% for Guyana (1982).

R&D in the Caribbean

- Gross R&D expenditure as a percentage of GDP for T&T was 0.14% in 1997
- These figures are 40-60 times lower than comparable data for Canada and the US during the same period.
- Total research funding at the three UWI campuses is estimated to be approximately US$2.6million
- Deficit of university level research funding of the magnitude of US$65 million per annum

Innovation in SMEs

- SMEs' innovative capacity and ability to develop new and innovative products, processes, and services varies significantly depending on their sector, size, focus, resources, and the business environment in which they operate.
- SMEs have been key to the growth and dynamism of certain high technology sectors, such as semiconductors and biotechnology.

Innovation in SMEs

- In a number of other sectors, however, innovation by SMEs mainly consists in minor adaptation to existing products, innovation in designs, mode of service delivery, or management and marketing practices.

Why such limited investment in R&D?

- A critical factor determining a firm's decision to invest in innovation is the extent to which it will be able to recoup its investments and make profits.

- Generation of new knowledge generally entails high costs, while the costs for copying or imitation are typically low.

Why such limited investment in R&D?

- If R&D expenditure is unlikely to result in higher profits for the firm, there will be a strong disincentive to invest in innovation.
- Need for increased understanding of, and reliance upon, Intellectual Property Rights (IPR)

Why such limited investment in R&D?

- Without intellectual property protection there is a strong risk that investments in R&D, product differentiation and marketing will be wasteful.

- IPRs enable SMEs to have exclusivity over the exploitation of their innovative products, creative designs and their brands, thus creating an appropriate incentive for investing in improving international competitiveness.

Integration

- Major problem faced by Caribbean SMEs is small size
- Amalgamation and integration are worth considering
- Large firms are integrating to ensure competitiveness and survival – why not small firms?

Integration

- **Integration could take place:**
  - Among SMEs in a single sector within the same country
  - Among SMEs in the same sector across different countries
  - Among SMEs in different but related sectors (clusters), both within and across countries
  - Through community ventures (Walkerswood in Jamaica)

The goal of SMEs should presumably be to grow and become LARGE!

Conclusion

1. SMEs need to focus on innovation in order to gain the competitive edge.
2. Existing rather than new SMEs offer the best scope for innovation and sustained employment.
3. Unfortunately, initiatives to develop the capacity for innovation among SMEs and the growth potential among innovative SMEs have tended to be overshadowed by programmes aimed at job creation.

Conclusion

4. SMEs need to invest more in R&D and to more actively utilize the IP system
5. SMEs should consider integration with rival, competitive or complementary firms.
6. Management and organizational issues need to be addressed, including the issue of structure.
7. Caribbean governments and private sector need to invest more in R&D.

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