Symbiotic Innovative Relationships of Small and Medium Enterprises

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***Abstract*—Majority of literature and scholarly research on innovation focus on developed countries, while there exists very little research on Small and Medium Enterprises (SMEs) in developing nations. SMEs innovative styles are peculiar to their environment like the biological amoeba and home-grown within the confines of limited resources and myriad of problems. This paper aims to explore the nature of "homegrown" innovation among SMEs arising from their symbiotic relationships with Multinational companies and strategic alliances with Asia. Evidences indicate the prevalence of process innovation in SMEs clusters and external linkages with Multinational corporations and Asian market has a positive impact on their performances, survival and growth. The paper employed a qualitative approach and attempts to contribute to the literature on innovation in developing countries and provide strategic and practical policy and business recommendations beneficial to SMEs stakeholders and Multinational giants. SMEs in developing can use group borrowing to access bank loans easily, nurture their outward strategic linkages and pursue innovation practices suitable to their context.**

***Index Terms*—Small and medium enterprises (SMEs), developing countries, external linkages, clusters, Innovation, Blue Chip Companies, Multinationals.**

I. Introduction

Activities of small and medium enterprises continues to draw the attention of scholars, decision makers, donor agencies and government globally due to strategic roles they play in all economies as major contributors to gross domestic product (GDP), employment generation, poverty reduction, economic growth and development. Though their nature differs across continents, regions and countries, like the biological amoeba they adapt and have continued to contribute significantly to economies and domains in spite of their seemingly small structures, sizes and environmental pressures. The synergy effect of clusters, ease of start-up and replicating nature of these enterprises has continued to ensure their evolution and adaptation to the business environment. Despite the multifaceted problems hindering the growth of these enterprises, they have been adopting novel strategies to remain in existence and leverage on opportunities in their environment.

The adoption of innovative symbiotic relationship by SMEs remains a strategic tool that can be harnessed to improve their survival rate, goodwill, growth potential and mitigate the effect of attendant problems that regularly beset them. These relationships and attendant problems have resulted in the increase of homegrown innovation tendencies and practices.

Rather than competing with "giant" organizations, SMEs that develop symbiotic relationships with multinationals may enjoy better leverage, higher survival rate and innovative processes due to high standards associated to the multinationals. SMEs that are not opportune to develop this strategic alliances and networks may experience slower growth rate, lack of access to bank financing and stiff competition. Though there are sharp differences in nature, types and forms of innovation across industries and countries, SMEs in developing nations and mainly sub-Saharan Africa are adopting "home-grown" innovative practices through developing symbiotic [1] business relationships, clustering and strategic alliances with Asian giants.

The purpose of this paper is to explore the nature of "Homegrown" innovation [2] among these SMEs, contribute to the literature on SMEs innovation in developing countries and strategic policy recommendations for stakeholders and multinationals.

II. Home Grown Innovation

The 'Amoeba-like' nature of SMEs differs across continents from Asia to Europe to Africa and is evident in the non–uniformity of definitions and classifications applied to them along the lines of employment, turnover or investment [3]. This foundational framework determines the nature of innovation within the context of their business environments [4], their rate of evolution and adaptability to the interplay of myriad of forces.

We propose a working definition for homegrown innovation as "activities of firms or enterprises aimed at

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gaining competitive advantage within the confines of its resources and dictates of operating environment.

The literature on homegrown innovation continues to attract the attention of scholars and government due to the immense transformation that the Asian economies have witnessed. The importance of homegrown innovation [5] to emerging economies and sub-Sahara Africa remains a topical issue that can serve dual purposes of harnessing their abundant economic resources, maximize labour cost advantage and resultant reduction in poverty levels.

Our focus is on developing nations, using Nigeria as a study point to unravel the types and shades of innovations among SMEs. Studies by International Finance corporation shows that 96% of businesses in Nigeria are SMEs, compared to 53% in the US and 65% in Europe; though this data provides us with summarized view of SMEs a lot of issues and contextual elements are hidden in these figures [6].

We find Process Innovation as predominant in developing economies due to the absence of enabling frameworks, support and impetus from the government and state [7]. While majority of the SMEs in Nigeria are clustered, their ability to develop and sustain product innovation is hindered by myriad of factors militating against their business such as poor technical capacity, lack of access to finance, unclear business strategies, competition and the environment [8].

The evolution of location based synergy, networks, external linkages with multinationals and blue chip firms often enables SMEs to fill service gaps through the provision of business and services that are considered necessary for the Multinationals operations but below their scope of activities [9], [10].

Though access to finance remains a problem plaguing SMEs globally, SMEs in major clusters like telecommunications, household goods in Nigeria have leveraged on "group borrowing "as an innovative strategy to obtain financing from conventional banks.

A major SME develops the banking relationship and access a stock finance facility for its business, the bank's appraisal is enhanced by the presence of other smaller firms in the main enterprise's cluster [11]. The lead enterprise develops strategic alliances with Asian manufacturers and they pool their capital together to make orders from Asia, split the products on arrival and allow credit sales within their clusters [12]. This innovative strategy invariably increases their business turnover and credit rating with the banks on the long run.

We have observed an increase in symbiotic relationships of SMEs with multinational conglomerates and blue chip companies, resulting in a spillover effect on their mode and quality of service. Symbiotic relationships with multinationals offer a wide array of benefits and leverage to SMEs that develop strategic alliances as suppliers, vendors and contractors [12]. The flexibility and local knowledge positions SMEs to become strategic business partner for sourcing and providing some of the raw materials needed and performing ancillary services that fall below the purview of these multinationals. The need to sustain competitive edge and retain the multinational's patronage often translates to improvement in their service processes, quality of goods and innovative tendencies in line with the dictates of these multinationals.

Though the rate of product innovation seems expensive for SMEs in developing countries, research suggest that firms which have strategic linkages with multinationals and blue chip companies may have easier access to credit facilities with banks, higher survival rate and higher profitability. The low rate of product innovation impedes the export capability of most SMEs with resultant import dependence nature due to environmental and institutional frameworks [13].

III. Innovation and Resoure Based Theory

The complementary nature of innovation and resource based theory in the study of symbiotic innovative relationships of SMEs takes cognizance of the environmental context, problems and offers strategies on how to leverage on the inherent benefits in their applications[14]-[15]. Their theoretical foundations offer a wide array of opportunities to SMEs .Similarly several studies reinstates the need for SMEs to develop their capabilities [16]-[17].The importance of developing their capabilities forms the crux of recent research with evidences that it may translate to growth and invariably lead to sustainable competitive advantages in different frontiers of operations [18]-[21].

Interestingly both Schumpeter[22]-[23] and Penrose theories have gone through series of evolutions, refinements and criticism from different scholars; however they continue to generate scholarly interest and constitute a solid bedrock that's applicable across disciplines. The relative benefits and relevance of these theories is instrumental to the continual survival of these enterprises, their ability to obtain and manage the continuous interplay of capability pressure, slack and environmental factors. The resource based theory provides great impetus for innovative tendencies and practices that are beneficial to the firm within the confines of its domains [24].

IV. Methodology

This exploratory study was undertaken using interviews and purposive sampling [25]. Interviews were conducted via telephone with twenty owners of SMEs using snowballing approach [26] for enterprises in the country's capital. This approach enabled us to reach most of the target population that were not easily accessible. The questions were open-ended and include: What is your unique selling point? How long have you been operating in the present business office? Are you willing to relocate? Do you service any big client or multinational? Have you had access to bank credit? What type of innovation has your business pursued?

Conversely purposive sampling was used by administering questionnaires to about forty SMEs in two major clusters in different locations This sampling method adopted is used mainly in qualitative research and aptly embodies the type of sampling in which, ‘‘particular settings, persons, or events are deliberately selected for the important information they can provide that cannot be gotten as well from other choices’’ [27]- [28].

The questionnaires were designed to gain insight to their sources of finance, innovation experience, major clients, linkages with Multinationals and blue chips and regulatory bodies

V. Findings and Discussions

Evidences gleaned from the interviews revealed that 80% of the SMEs owners have had relationships with multinationals and blue chip conglomerates, during these periods they often do not service other clients due to the volume of business gotten and timeliness for execution. A major reason given by those who lost their business relationship with multinational was primarily due to provision of a more superior innovative solution or product by their competitors. Owners of these enterprises continuously explore avenues to sustain their competitive edge by striving to study trends and activities in their business clusters [29].

The need to retain the patronage of the multinational corporations has continually made these enterprises to innovate and proffer novel business solutions and services aimed at simplifying and enhancing business operations of the MNCs and increase their business wallet size. The resultant benefits include easy access to other big organizations and better bargaining power in obtaining bank loans.

Access to bank credit became easier as the owners confirmed that some of the banks which had business relationships with the multinational corporations and big conglomerates had designed products mainly targeted at the multinational corporation’s suppliers and contractors. These credit facilities are usually short term and tied mainly to finance work orders and local purchase orders gotten from the Multinationals.

The banks often ensured that the SMEs effect irrevocable domiciliation of payment agreement to retain the funds in their banks and effect periodic disbursements in milestones for projects been executed. We discovered that enterprises that serviced them for upward of three years all had easy access to bank loan with less stringent conditions compared to other clients who had to prove capability.

Location and cluster benefits were also found to have a direct effect on the performance and turnover of the SMEs, 90% of the respondents indicated their willingness to remain within their clusters and it could be inferred that the cluster offers economies of scale benefits, drives innovation, positive spillover effects and spatial benefits.

The small business owners interviewed and questionnaire respondents share varied views on product innovation, 85% of the respondents indicated their unwillingness to undertake product innovation due to the associated risk, citing the risk factors, the activities of innovation predators and cost implication, 5% confirmed that their engagement in innovation has given them slight leverage and competitive capability.

Surprisingly product innovation is mainly executed through strategic alliances with business partners in China, Dubai, Taiwan and Europe [28]. SMEs listed the lack of constant supply of power and energy as major factors that hindered their ability to undertake product innovation within their home country. SMEs owners who have developed these alliances deliver faster, offer products at lower cost with huge turnovers resulting a bandwagon effect to sustain survival and competiveness.

Our findings on process innovation and “homegrown” innovation are a pointer to the impact of the environment on the activities of SMEs. Business process innovations are seen as fluid and constantly changing in response to the dictates of their key clients and market .Business process innovation was found to be more common among new entrants with over five years experience alongside traits of product innovation capabilities and often used their experience, interactions to adopt ‘ad-hoc’ process innovation as the need arises .

VI. Policy Recommendations

SMEs in developing countries can overcome and mitigate the effect of the myriad of problems encountered in their environment by pursuing homegrown innovation in the short to medium term through strategic linkages with big firms and organizations [30]. The spate of innovation in China and most western countries is traceable to the immense support from their home government.

African Government should provide holistic support and funding for SMEs to pursue product innovation in strategic sectors as it’s done in China [31]. This would reduce the capital flight, increase the rate of technological transfer, patent registrations, and innovation capabilities of these firms in the long run and unleash the economic resources utilization of their nations.

Though Multinational organizations engage some SMEs in filling some of their service and product gaps by enlisting them as suppliers and contractors, they can also leverage on the dynamism and clusters of SMEs by providing technical support and investments in these enterprises. One of the industries that use the integration model is the tobacco industry in Nigeria. Multinationals can leverage on the local knowledge of SMEs by nurturing and developing long term strategic integration.

Businesses and organizations in China can further explore the opportunities existing in these developing countries by consolidating partnership with their SMEs clients and establishing factories in these countries to reduce the time lag experienced in exports and imports and also benefit from the social capital of these SMEs.

“Homegrown” innovation [32] is a factor of the SMEs cluster environment and the motivation to innovate is usually taken as a reactive strategy in developing economies. SMEs at the lower end of the business continuum often adapt to the dictates or trends of the big players in the industry both locally and globally [33].

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