

INNOVATIVE IDEAS GENERATION IN DEVELOPING COUNTRIES: A CASE OF PAKISTANI SMES

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Abstract

In the current global hyper competitive environment focus and improving innovativeness is the key to sustain and maintain their position and consistently improve itself for future. The aim of the paper is to add practical knowledge by exploring the unexplored or traditional channels of innovative idea generation with regards to networking. In developing countries SMEs are mostly focusing on process innovation while networking and research collaboration are receiving little attention therefore uniform and well-known channels of new ideas generation are missing. This study looks for approaches to innovative ideas generations in the context of SMEs in developing countries. Hence, detailed interviews have been conducted with the owners/ managers of SMEs that are comparatively developed and involved in innovative activities. The findings of the study provide insight to entrepreneurs, guidelines to policy makers and other stake holders regarding sources and channels of innovative ideas generation for SMEs with context to developing countries.

Keywords: channels of innovative ideas, innovation, innovative ideas, SMEs.

1. Introduction

The article highlights the sources through which Small and Medium-sized Enterprises (SMEs) redefine their way of doing business and approaches to innovation. In this research, a case study approach has been adopted where the data has been collected from the owners/ managers of comparatively high performing and innovative SMEs. The population of study is mainly the manufacturing sector. The study explores the channels through which these successful and high-performing SMEs are generating and developing new ideas. The SMEs under study are still in the traditional practice although innovation management has been greatly researched and developed globally. Empirical evidence suggests that highly motivated employee, closer links with customers, focuses on competitor and close and friendly relations with the supplier has a great influence on firm's innovative performance. The findings of the study show significant implications for future researchers, entrepreneurs, governmental institution, and other stakeholders.

2. Background of the Study

SME has an importance role in the economic growth of a country. SMEs has potential in the promotion of domestic-led growth in existing industries. It also has the flexibility to compete in the challenging environment. SMEs has received great attention, due to its role in the country economic development (Syed *et al.*, 2012). Hence, SMEs consist of flexible structure and considered as backbone of the economy (Radam *et al.*, 2008; Amini, 2004).

Most of developed and developing countries assign strategic importance to SMEs due to the fact that SMEs contribute greatly in the development of any nation's economy (Abdullah, 2000a). Globally, almost 95% to 99% of the business population consist of SMEs and significantly contribute to the economic development of the countries (OECD, 2005). As in UK, SMEs represent 99 percent of the overall business community (Rowe, 2008, as cited by Syed *et al.*, 2012). In Malaysian SMEs represent about 48 percent of the manufacturing sector (Abdullah, 2000b). In Thailand 98 percent of the total manufacturing sector representing by SMEs (Suthiphand and Nathavit, 2000). Globally, the China economy is fastest growing economy and around 99 percent of the firms are SMEs and providing around 70 percent of overall employment (Tang *et al.*, 2007). SMEs have major contribution towards economies, for example SMEs in South Korea provide 40 percent of the total employment (Lee, 2000).

Due to the critical role of SMEs in the development of country's economy, developed economies are emphasizing on SMEs (Maad, and Liedholm, 2008). In this regard to gain sustain competitive advantage and to increase productivity SMEs sector are inarguable. SMEs sector are also struggling for the expected high rate of return on investment. Therefore, to compete in the highly competitive global environment SMEs sector must alter their traditional approaches and to adopt innovative strategies. The United Nations Industrial Development Organization's report (UNIDO, 2005) shows that in developing countries, the main source of income generation is SMEs and it is mandatory to focus on the development of small-scale activities to minimize the poverty on a sustainable basis.

In the current business environment, small organizations have been given - considerable attention as its role towards economic development. In this regard, the informal small organization and resources limited settings are largely benefiting from innovative approaches (Nooteboom, 1994; Vossen, 1998; Lee and Chen, 2009). Many studies emphasize that small organizations are contributing greater to the economy than large organizations as globally the focus is towards SMEs (Audretsch, *et al.*, 2000; Laubacher and Quimby, 2003; UN Conference on Trade & Development, 2004).

It has been realized that although most of the innovative efforts are not successful but the organizations that are not considering innovation will die (Chesbrough 2003). In addition, It is argued that innovation is the only domain and wise decision of entrepreneur (McDaniel, 2000). Many researchers are trying to find ways for the survival of an organization, and there is a bundle of studies that emphasise on the fact that the only solution to stay in the hyper-competitive environment is an innovative strategy (Lee and Chen, 2009). In the current global competitive environment, the organizations have to focus more modern innovation management practices in place of traditional approaches. This argument is strongly supported by Baldassarri and Saavala (2006) that requires an

organization to adopt innovation practices for sustaining and maintaining their stability in increasingly highly competitive markets.

Innovation has got great attention among the academicians. As the Rainey (2005), arguing that to gain sustain competitive advantage the contemporary organizations must focus on innovation as innovation is the best solution. Innovative strategy and innovative activities increase a firm's performance (Ilker and Birdogan, 2011) and focusing on innovation is the best policy (Kim and Maubourgne, 2005). Organizations with their innovative strategies are obtaining better financial performance (Barney 1991; Zahra *et al.*, 2000). Hence, the SMEs manager and owners must frame their innovative strategies to compete with large organizations and to sustain and maintain their position in the market. This argument has been supported by Anaka *et al.*, (2009) that innovation plays as an essence of small business development.

In Pakistan, currently the innovation related research in SMEs is limited and rather at very initial stage (Khalique *et al.*, 2011) exhibiting under performance (Ahmed and Mahmud, 2011). The Global Competitiveness Report 2017 shows that out of total 127 countries, Pakistan is ranked as 113th among the performance of SMEs. In addition, Bashir *et al.*, (2010) stated that SMEs in Pakistan are lacking innovation focus and need to conduct innovation survey. In Pakistan there is no supportive policy that can accelerate innovative strategies and to develop innovative environment (Sohail *et al.*, 2011). As a result, there are no tested channels of innovative idea generation in the context of Pakistan. In addition, there is no clear guideline and differentiating factors among innovative and ordinary SMEs. And SMEs are surviving mostly on personal resources. Hence, the current SMEs trends and situation is beyond the global trends. In this regard to fill the gap, this research thoroughly investigates SMEs to explore the channels through which these organizations may approach new ideas generation in terms of process and product improvement.

3. Literature Review

Many researchers and academician are using a different research approaches and techniques to deeply apprehend the fundamental sources and channels of new idea generation. The findings of these research attempt significantly contribute towards improving and broadening understanding of the subject. According to Adams (2006), there is dissimilarity between theorists regarding propositions about approaches to generation of new ideas and that are yet to be validated. The nature of the new idea is a broad range that is underrated by many of researchers and lacking straight forward rules regarding the sources of new idea generation. Additionally, that depends on the organization environment. Amabile (1998), has provided the three comprehensive elements of new ideas generation namely motivation, knowledge and creative thinking.

In early stage, most of the organizations concentrate on their sources and capabilities to create and implement new ideas. Traditionally, R&D departments were considered a fundamental source of new idea and innovation (Bjork and Magnusson, 2009). The most popular and recommended way was to invest in R&D activities. R&D need more funds and committed workers, whereas the successful ration of R&D projects is one-fifth (Rizova, 2006). A wider set of innovative idea generation channels has been seen inside and outside the organization that include employees, customers,

network partners, private inventors and collaborators (Cooper and Edgett, 2007). Most of the innovative ideas start from the vision of a single individual and turning off this new knowledge into innovation (Bjork and Magnusson, 2009). However, inside development is costly and sometime not adequate for suitable ideas generations (Hitt *et al.*, 2000). The above arguments has been supported by Cooper and Edgett (2007) as they emphasize that internal knowledge is not enough and today's firm needs to have access to external knowledge and have the ability of proper implementation and transformation. Therefore, exchange of problems and ideas in a group is the fastest and economical approach to new sources and expertise (Grand *et al.*, 2004).

A close communication among the organization and their customer has greatly influenced new idea generation and value creation (Prahalad and Ramaswamy, 2004; Finsterwalder, (2009). In services development, the concerned customers have low involvement (Alam, 2002). Similarly, the study of Hyland *et al.*, (2006) suggests that interaction with customers and supplier i.e. formal and informal has a significant influence on firm new idea generation and innovative performance. Prahalad and Ramaswamy (2004), propose four key elements that help firm in successful generation and implementation of new ideas. These elements are the dialogue, access, risk assessment, and transparency. Sawhney *et al.*, (2005), state that continuous dialogue with potential customers and sharing of theses knowledge on the proper and systematic way within the organization opens new insight towards innovation. Their study concludes that innovative organization needs to have a close links with their customer and properly implement the knowledge provided by the customer. Bjork and Magnusson (2009) assert that well-known sources of new idea generation are universities and governmental research institution, R&D departments, and individual inventors. Adams (2006) has been found focusing more on the efficient and effective marketing team and design practices. In the new trend of open innovation era, it has been an emphasis that new idea can easily be generated through external knowledge of both market and technology (Chesbrough, 2004).

Every innovation begins from ideas and to successfully innovate organization must continuously float new ideas in order to choose a best suited and commercially viable idea (Boeddrick, 2004). Francis and Bessant (2005) stated that successful and innovative organizations have the advantage over their competitor by having the ability to implement new and better ideas. Irrespective from where new ideas come out, knowledge is very crucial for new idea generation (Howells, 2002). New idea generation and innovation has a high impact on firm to sustain competitive advantage. The world is changing faster, and the yesterday's ideas were enough but not enough today. Every business and industry is in the process of disruption at their level and capacity. The organizations dependent on their old practices struggle to survive or may lose their existence soon. Therefore, a firm will remain and sustain its growth by focusing on new way of doing business.

For process improvement and product development, alternate marketing strategies and managerial practices require new ideas to solve the problems and enhance firm performance. So, it is imperative for organizations to focus on generating new ideas and channels through which they may be able to find suitable approach to doing business.

4. Methodology

Based on the nature of the study that needs in-depth information with live experiences, hence qualitative research approach is adopted. Qualitative research allows a researcher to collect data and information from different sources to understand deeply the phenomenon. As Creswell, (2002) state that for inductive qualitative research design is appropriate.

The authors focus on the in-depth interview and adopt case study approach. The researcher contacts comparatively high performing and successful organization that are involved in innovative activities and interviewed them deeply. The authors got help from the Project Manager Industrial Estate Hayat Abad Peshawar Khyber Pakhtunkhwa Pakistan to reach the potential innovative organization. The data has been collected through in-depth interviews and the interviews booklet (Case Study Protocol) has been discussed before the interview with the owner/ Managers of the selected firms and set a date for detail interview. The purpose was to discuss in detail and gathered in-depth and detail information. From the detailed interviews, the author tried to dig out some undefinable and adopted channels and sources through which these organizations are generating new ideas and altering their business activities. The data was transcribed and analysed through Miles and Huberman (1994) techniques with the support of NVivo-10.

5. Data Analysis and Result

The collected detailed and explorative data has been analysed through Miles and Huberman (1994) step by step techniques/ framework i.e data reduction, data display and lastly the conclusion drawing and verification. In the data reduction stage, all the unrelated information has been detached through filtering techniques. After the filtering the “data display” next step started, and codes has been assigned to the filtered data. In this stage the relevant information is grouped which explain a common theme. Each group consist of sub themes which helps in conclusion and provide a window for discussion. In the process of validating research findings, there is need to give enough consideration to findings. For this purpose, we revisit the data to confirm the themes and sub themes and matched with the codes, keeping in view the objective of the study.

This section of the article covers two cases of SMEs from different industries. The first case belongs to Steel industry while the second case is from Furniture industry. The primary objective of this section is to explore qualitatively their innovative efforts and the sources of innovation and to know the channels through which these firms approach new idea generation.

a. Profile of the Company A (Case 1)

The profile of Company A shows some success stories and considered as is a successful innovative SME. As the company introduce changes in their process. These innovative changes reduce per unit cost and productivity. The Company A has also enhanced the existing product quality through which the company has increase their market shares.

The observed company was established in 1998 as a small unit with limited production capacity. In the company 30 general, technical and administrative staff are working. The company owner is experienced and engineer by profession. As the owner has a diversified experience in different local and international large and small organizations. The interviewee (Manager) is experienced and highly qualified. In 1998, he starts a small production unit with few employees, and now at their mature stage and serving in the different area of the country as well as exporting to the neighbour country.

i. Channels of Innovative Idea generation

There is no Research and Development Department in Company A. The technical in-charge, who is the owner and Mechanical Engineer, works in the workshop where the machinery is repaired and different equipments for machines are developed and replaced. Company A ensures product quality by changing the shapes of products, altering the manufacturing process and buying new machines to meet customer and market requirements. During the interview discussion on new idea development the interviewee states that:

“We are trying to do something new, which may be in the form of product quality, changing the design, and mostly trying to alter and enhance the production of machine and to reduce per unit cost. So, we have a close and friendly links with supplier that supplies different parts of machines, so they are keeping us well aware of new equipment. We also have a small workshop that we are using as an R&D unit, where our technical staff and owner are designing different parts of machines to increase production of the already installed machines. On the other hand, we have close links with our customers who are mostly Engineers and Government contractors, to our advantage as they have know how of the technological development, who demand variety of products”.

Company A has been generating new ideas through suppliers, traditional R&D efforts, owner/manager and personnel experience and strong customer relations.

b. Company B (Case 2)

Company B is a successful, innovative SME in a furniture industry. The company provides innovative products to their customer. The owner claimed that the Company B has a wide variety of the customers coming from within the country and abroad. Therefore, the Company B is trying to provide something new and different from the market and it is sometimes that the customers compel the Company B to provide new variety. The primary focus of the company is on the quality and not concerning the cost. In other words, company B is mostly dealing with elite class.

The company B has been established by a lady owner in 1996 with a small unit. After the death of her husband, she had to bring up her two sons and one daughter. For financial part, she took the initiative of starting a small furniture manufacturing unit. She has earned secondary school certificate that is 12 years of education. The owner is also a social worker with a mission to help especially

those women who have lost their husbands and have none other to support the family. The interviewee mentioned that the firm has - highly professional and cooperative customer that makes the job easy.

i. Channels of Innovative Idea generation

In company B, there is neither established Research and Development Department nor dedicated team nor do they have any collaboration and networks. The owner is highly motivated to do something new. She is not highly educated, nor does she have a technical or designing degree. The owner herself designs all the new entries and sometimes designs according to customer needs. The focus of the Company B is to provide new, stylish and unique designs to satisfy the existing customers and attract new customers. She claims that Company B is the only firm in the area with all the products and new entries available on the web page. During discussion on the new idea generation the interviewee stated that:

“In the area where we are serving has a lot of talent but the problem in this industry is that when we the personnel get trained they try to search for a new job or opening their own business. This makes me to develop all the new design myself and thankfully every design is different from the others. We are also looking at trends in the market and our satisfaction customer prefers our designs. As per the process improvement, we have a close link with machinery supplier, and they keep us updated regarding new equipment’s. My vision is to bring and install the latest and state of the art technology. If you visit our firm, you will see the old machines replaced by new machines. We have high profile customer, for example, the furniture of the Khyber Pakhtunkhwa Provincial Assembly has been designed and supplied by us. We are getting ideas for the new designs from our customer”.

Thus, Company B has been generating new ideas through its owner’s vision, experience, strong relation with suppliers and changing their process through close links with machinery suppliers,

6. Discussion

The literature review - led to identify external and internal sources and channels of innovative idea generation. Globally the developed economies moving toward R&D Collaboration with vision to introduce new and enhance existing products to the market with reasonable price. This trend is opening windows for open innovation which is the most favorite and familiar for the contemporary organization to innovate. Hence, open innovation is recommended is attractive insight for company R&D department. In nutshell, the literature is putting more emphasis on the open innovation and collaboration whereas the organizations under study are still in their traditional approach. However, it doesn’t mean that these organizations are not practicing innovation management. The analysis of interviews data provides basic understanding of the channels and sources through which the organization alter approaches of doing business and changing and enhancing their products. In this

research, the attempt is to explore different sources of ideas generation, and to list it for future innovation and development with context of developing economies.

The interviews data and cross cases analysis suggest that the three channels i.e., Closed Links with Suppliers, Owner Education and Experience, and Customers are the most common channels for idea generation, process redesign and product improvement. The three channels are the highest rated sources of ideas generation and play vital role in firm's innovative performance. On the other hand, R&D department was found to have a low contribution towards new ideas generation and process improvement, which is beyond the global trend. Hence, the SMEs in developing countries are rely on their traditional approaches. The findings of the study are in consistency with the study of Finsterwalder, (2009); Desouza *et al.*, (2005) and Sawhney *et al.*, (2005).

It is quite worthy to note that literature is primarily concerned with R&D, Customer links, Skilled Employees, networking, collaboration and market closed analysis as the key sources of new idea generation. Whereas in the cases under observation organizations, supplier and owner's experience and education are showing high impact on firm's innovative activities.

7. Conclusion

The findings clearly show that there are specific sources and channels through which SMEs in developing countries ensure innovativeness. In cross case analysis, it was found that every organization needs a certain amount of relation and abilities to be innovative. It is highly recommended for owner/ manager to have a close and friendly links with machinery suppliers. The education and experience of the owner are more helpful in terms of new ideas generation. It is also recommended that organization has to establish a closed links and regular follow-up the customer suggestion and complaint, as the interview data suggest that mostly the customer are providing new insight and sometimes compel organization to do something new. The firm ha to establish their R&D department and hire qualified and experienced technical staff to develop the existing products and machinery inside the firm and transform outside knowledge into true meaning. Lastly, it is incontestable that for firm innovativeness the owner and management must provide opportunity and wisdom to their employees to contact with each other and approach outside the organization and to promote knowledge sharing. For innovation players, it is apparent that a certain level of networking has a positive effect on innovation idea generation.

Furthermore, this study has a several contributions; firstly, this study contributes to the body of knowledge the sources of innovative idea generation with context to Pakistani SME, which is not exist in current literature. Secondly, the finding of the study also provides a clear guideline for future researchers that need to be match with other SMEs working in other regions. Lastly, the findings of the study also providing the most focus area of innovativeness to policy makers and other stakeholders to be focus and enhance the innovative capabilities of samll firms.

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