

SMEs DEVELOPMENT IN SCIENTIFIC AND INNOVATION PERSPECTIVE

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Small and Medium Enterprises (SMEs) are critical components for any country. It demands systematic examination based on theory and proves its significance. In our case, finding explanations is required why SMEs are important, about its historical background and what it would deliver in the times to come. As the issue of SMEs is yet to recognize by the respective governments over time, it is inevitable to identify and find way out to address the concerns of the sector. The main objective of the paper is to make an inquiry into the increasing importance of SMEs in Nepal. While analyzing Nepal's SMEs, European SMEs are taken into consideration including other countries in an innovation perspective and technology transfer.

Based on the empirical evidence and innovation theory of management propounded by the world-renowned scientists, we have tried to find solutions scientifically related to the weak absorptive capacity of SMEs to go in an innovative way for their advancement and technology transfer in Nepal SME as the role of SMEs is deemed critical for job creation and economic growth. The lessons from European and other developed economies could transform SMEs into more productive ones through innovation and push for the sustenance in the long run. The research shows that defining the SMEs in the Act itself is not sufficient to promote the sector. Rather, the SMEs should be advanced through the adoption of innovation management techniques and technology transfer with facilitation from acknowledgment management and partnership approach to their sustainability. Conclusion: the country needs to adopt a strategy to define the SMEs in a professional manner like other countries; introduction of some rules and regulations to encourage the sector in terms of incentives and finance; introduction of SME Policy to consolidate SMEs, which also needs to focus on technology transfer and knowledge management for adopting innovative approach for the advancement of the sector.

Keywords: Nepal, SMEs, innovation, economic development, knowledge management, technology transfer.

Introduction

Small and Medium Enterprises (SMEs) are the backbone of most economies – whether it is in Nepal or European countries. However, they need to adopt innovative approach to sustain and stay competitive in the long run. SMEs seem critical for Europe as it creates more than 85 per cent of new jobs. The SME is defined for such enterprises, which maintain the staff headcount, annual turnover and annual balance sheet in Europe. If an enterprise employs less than 250 people, does transaction not exceeding euro 50 million and maintains a total annual balance sheet of euro 43 million, these are called SMEs [8]. According to OECD, SMEs covers 90 percent firms and employ 63 percent of the labor force globally. When it comes to the definition of SMEs, it varies from country to country and lacks universal definition [15].

There exists differences in SME definition based on international institutions, national laws or industries. This has been a great challenge to the scientific researchers to find the definition of SME similar for all countries. The definition of SME in Nepal is done based on fixed capital of the enterprises. Small enterprises (besides micro and cottage) that has US\$ 0.9 million fixed capital, medium enterprises starting from the US \$ 0.9 million to the US \$ 2 million in a country like Nepal [13].

This main aim of the article is to examine SME and its future potentials in the perspectives of innovation

management including definition as to how SMEs can be exploited for economic growth through the innovative way. As the SMEs are defined in different ways from country to country, it is deeper understanding for the states and for the students of science in today's growing world is inevitable.

Increasing need of SMEs in Nepal for socio-economic development cannot be undermined and, also the changed political system projects that this potential sector to grow to advance economic growth as the sector contributes immensely for the majority of the population for better livelihoods. Belás, 2015 states that the SMEs make the major contribution to boosting economic growth in EU including employment as the sector is ultimately turning out to be a dominating force in socio-economic development.

Exploring the potential roles of SMEs in economic development is imperative but it has to go in an innovative way if they want to survive and exploit its full potentials. The scope of SMEs in Nepal and other parts of the world is immense but all countries are not performing as required and seem riddle when it comes to exploitation of full potentials for sustainable progress. In such a context, it is logical in theoretical perspectives to compare other countries' SMEs and find a solution for their survival in a productive way.

The research of SMEs should rather need to be done in a scientific way, which is not done yet by anyone in the country. It necessitates recognizing the rational

why SMEs are critical throughout the world for shared prosperity. As the research of science is an independent process, SMEs, which mostly are in operation in a traditional way, can be compared with other global economies in a scientific way. In our scientific research, the SMEs will be analyzed on its importance in theoretical perspectives for economic development in the context of innovation management.

SMEs are, no doubt, critical components for any country. It demands systematic examination based on theory and proves its significance. In our case, finding explanations is required why SMEs are important, about its historical background and what it would deliver in the times to come. As the issue of SMEs is yet to recognize by the respective governments over time, it is inevitable to identify and find way out to address the concerns of the sector. If not, what consequences it will lead, would be difficult to understand in the coming days.

1. Intention for conducting research on SME

As the SMEs are a great field of study, we will dig the scientific truth, which is useful for scientists and practitioners as well. The real science behind the emergence of SMEs will be dealt in theoretical perspectives as it helps us to explore new knowledge through innovation management of enterprises. In the field of scientific research, well-known scientists like Joseph A. Schumpeter (1883-1950) and Prof Dr. Jan-Urban Sandal (Norway) [17] including other scientists/authors have dealt at length to understand the theoretical part in understanding the industries' potential and for economic development.

SMEs role is significant, and consumers need to feel the difference on the use of SMEs products, which can only be achieved through innovation. For this to happen, SMEs can adopt the approach the innovation management theory propounded by Joseph Alois Schumpeter. The innovation concept covers the following five cases: "(1) The introduction of a new good – that is one which consumers are not yet familiar – or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. (3) The opening of a new market that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through justification) or the breaking up of a monopoly position" [18, p. 66]. It is implicit that SMEs are found to be the critical

component of the national economy. However, its significance and promotion are not yet done in a systematic approach through the study of history, developing theory in today's context. Therefore, SMEs should be made an indispensable sector of the economies like Nepal, by identifying the bottlenecks of the sector. Since this sector is considered as a strong economic agent of the society for the dynamic change, its proper classification is the need of the hour in terms of both the employment and the capital.

2. Literature review

It is evident that there are no scientific papers written on SMEs and its role in national economic development at the national level, especially in Nepal. Globally, there are scientific papers and literature on the role of SMEs based on theoretical perspectives, which demands at the local level to conduct research scientifically to recognize its importance at the national level and explore accordingly to the international arena.

The contribution of SMEs in the overall industrial sector is huge. Its role in economic growth and socio-economic development seems unrivaled compared to other economic sectors. Studies and research can be found globally on SMEs in different countries. There is a need to go deeper into the theoretical framework to analyze properly to find out the issues surrounding with the SMEs for its unexplored potentials. Momtaz Uddin Ahmed has stated it in an international journal titled "Theoretical Framework for Analyzing the Growth. International Journal of SME Development [1], affiliated with the University of Dhaka, Bangladesh, theoretical framework needed to identify the weaknesses and strengths of SMEs. Inevitably, the problems faced by the SMEs do vary from country to country which can be analyzed taking examples from SMEs-focused countries based on theoretical perspectives. Many assume that it is difficult to differentiate categorically the problems faced by the SMEs, but finally, they grow from small and make the world a better place to live in an increasingly complex industrialized world. According to Ahmed, the issues surrounding SMEs are many from technical to behavioral aspects of firms, as they are not being considered in theoretical perspectives, and seek for examining which becomes useful in identifying the problems faced by them including operational ones.

In today's world, SMEs – some are being confined to the family members alone, and are yet to move in a commercial way engaging professional people. This is static as the production is not dynamic compared to 25 years ago in Nepal that lacks innovation and inability in adopting new technology. Workers are engaged in labor-intensive small-scale and household enterprises. The technological level of Nepal's manufacturing products such as textiles, garments, and carpets (mostly labor intensive) is lowest in the world [14]. If the SMEs are to be advanced with new innovations, SMEs

should move in line with a global perspective through the diversification of the products, change the design, seek new markets and change the production process as European countries have already proved so.

While carrying out innovation work of SMEs, there should be some new form of combinations and activities by the engaged entrepreneurs, which can only emerge through creativity/innovation. "Entrepreneurial profit is the proof of success as it is the result of successful entrepreneurship. When the entrepreneur undertakes the carrying out of new combinations, new combinations of land and labor (the first and second input factors in the production function) – an entrepreneurial profit will occur under special circumstances. The market forces channel the entrepreneurial profit to the entrepreneur. Most fortunes are created by the entrepreneurial activities [17].

As the criteria of SMEs in Nepal is somewhat different than other countries of Europe, the state should grant subsidies for innovative development to establish new enterprises that attract newer technologies, new products, and services, new workplaces and create demand in the marketplaces that will ultimately boost the national economy. However, it has to be supported based on the criteria of SMEs as per the Industrial Enterprises Act.

Knowledge management seems to be the key component to magnify SMEs to expand with an innovative approach. However, it depends on how the knowledge management is managed for operating the SMEs in an innovative way. The use of KM ideas/practices provides the ability to improve organizational performance, facilitate innovation and create a sustainable competitive advantage of the SME, "SMEs are the real backbone of the developing economies, knowledge management support productively if SMEs are to sustain in the long run as per the local environment of the respective countries"[19].

Innovation motivates for producing new ideas that ultimately gives a sound environment to become competitive and reap the benefits through the market. It has been stated substantially that innovative companies can easily outperform non-innovating companies. However, innovation depends entirely on effective management, marketing, scientific, technological, financial and business [22].

Innovation involves multiple dimensions from starting to the product, radical to technological [6] that plays a role in the profile of organization as well. The debate between scientists is going on innovation and entrepreneurship as well. Economists state that entrepreneurship and innovation are interrelated which, and in absence of either one, affects entrepreneurship activities. At the same time, economists viewed that with an increased level of entrepreneurial activities, commercially relevant innovation can be produced [10]. SMEs contribution in Ireland is found critical, thanks to its contribution to an economy, as it alone accounts for

99 percent of enterprises in the European Union, estimated to be 20 million separate businesses. SMEs' contribution in innovation was found useful as it ignited the process a lot in diffusing the earlier existence and going for new ones to survive in creating employment along with new product development of the enterprises – which can be formal or informal – with the adoption of innovation process [15].

Innovation plays a critical role in modernizing the SMEs based on market demand and consumer interests. It is critical to changing market conditions, competitive tools and effective strategies as innovation is the secret of competition. Innovation is realized if there is new product/service, idea, process or practices in the interests of consumers and potential customers. Innovation is considered as a tool to think in a creative way for making useful products [21].

Innovation, in the words of Peter F. Drucker (1909-2005) is a function of entrepreneurship, which is linked with existing establishments, public institutions, new ventures that means by which entrepreneurs can create wealth-producing resources or bequeath existing resources for producing wealth. Innovation is the tool to create purposefully, focused change in enterprises' economic or social potentials [5, 7]. Innovation starts from small, and it requires knowledge and creativity along with focus that helps in innovative activities. "Entrepreneurship is the practice of systematic innovation" [7, p. 69].

SMEs transformation is required to survive in a sustainable basis, which can be possible only through the innovation in processes and related policy. This helps in competition globally. SMEs development is possible through the combinations of adequate finance, access to markets and acknowledgment management. Once this is done, it helps SMEs to go global as well with potential products. The key issue is that in developing economies, 90 percent plus of all firms outside the agriculture sector are SMEs and micro enterprises which hold a significant share in GDP [2].

3. Methodology

The research on SMEs needs to be done based on scientific truth/empirical evidence and primary sources of information from authorized bodies. It is done through the identification of evidence related to SME Scientific journals and discussed on its role in the national economy and in comparison with other countries' SMEs. The scientific literature and journals are analyzed and discussed herein theoretical perspectives in relation to the enterprises that are mostly SMEs. Not only that, its traditional way of doing businesses and modern world requirements is discussed based on the innovation management theory propounded by 20th-century economist Joseph Alois Schumpeter and 21st-century scientist Prof Dr. Jan-Urban Sandal of Norway. Status of SMEs in Nepal, as per the figures produced by the Department of Industries [3], as of December 2017

is analyzed here. It is presented here that how many industries are established and what number of employment they have presented.

According to Nepal Rastra Bank (NRB), the central bank of Nepal, SMEs contribution in the total industrial sector of Nepal stands over 90 percent. However, it is pathetic as stated by NRB, Central Bank report in 2016 that, of the total lending released by the commercial banks, only 2.5 percent has been invested in SMEs. Of the total number of industries, 86 percent are SMEs as mentioned above in Table 1.

Similarly, when it comes to providing employment, SMEs alone gives 74 percent employment compared to the one large enterprise, as per the official figures mentioned above. This is the fact that the importance of SME is becoming more critical for Nepal, and innovation is needed to sustain it in the long run.

As per the categorization of SMEs [Industrial Enterprises Act, 2016], the SMEs in the context of Nepal are grouped as mentioned below (Table 2).

Table 1

The registration and employment status of SMEs

| | No of industry | No of employment |
|--------------|----------------|------------------|
| Large | 974 | 142,763 |
| Medium | 1595 | 148,738 |
| Small | 4638 | 266,266 |
| Total | 7207 | 557,767 |

Source: [11, 16]

Table 2

The categorization of SMEs in terms of capital as per the Act

| Category | Small (besides micro and cottage) | Medium |
|-----------------|-----------------------------------|-----------|
| Amount in US \$ | 0.9 million | 2 million |

Source: [13]

These Nepalese SMEs lack technological transfer even from neighboring countries like India, Bangladesh, Bhutan, China including other south Asian countries and Europe. While the categorization of Europe is different as European countries have differentiated SMEs based on both capital and headcount of employees. As described above in the introductory chapter, European countries have also categorized SMEs as per employees' headcount and annual transactions based on European Union.

According to the report published by the International Finance Corporation, The World Bank Group in 2012, in Nepal, women own about 14,300 SMEs employing over 200000 workers, as they remained strong economic agents for the country [9].

4. Technology transfer from Europe to Nepal SME

Technology adoption is very much lacking in the SMEs in Nepal that has affected the growth and sustenance of the sector. It can be replicated from Europe. This is the fact that knowledge-based, technology or research-driven could lead to innovative entrepreneurship. It can only occur if individuals engaged in SMEs possess technological background and academic education. Industrial clusters can facilitate knowledge transfer and knowledge spillovers to make the SMEs

enterprises innovative, and restriction of such resources for SMEs is a barrier to innovation management.

Technology is critical to diversify the products and modernize the company. In SMEs, which are found weak due to their low capital base and inability to operate in an innovative way, adoption of new technology with the potential partners based in Europe can be productive for Nepal. The SME policy needs to be introduced in line with other countries' rapid development of SME that opens doors for partnership in technology transfer and innovation. The identification of markets and possible partners to move to technological development might be a greater shift strategically in better products, services, and processes for future growth: "With the adoption of partnership strategy, SMEs can retrieve some technologies to go for innovation and advancement"[4].

There are examples that high-tech SMEs have become the power of economic development as it also turns out to be the key factor in sustainable economic growth and innovation of a country. SMEs are known as the main source of innovation, creating employment and productivity growth. However, the monitoring from the state can be effective not to see their closure

as SMEs starts from venture capital to already established SMEs in a dynamic economic landscape [12].

European Scientific Journal published in December 2015 mentioned that SMEs in China had reached almost 43 million in 2014 which is about 99 percent of the total Chinese enterprises and output value estimates more than 55 percent of the country's domestic products. Not only that, it generates 75 percent of China's employment and turning out to be a major component of the economy. Chinese SMEs are also suffering from outmoded technology and little understanding of innovation method of production. Technology transfer and knowledge management is still a question in China [20]. China also enforced the SMEs Promotion Law in 2002 that has further advanced the growth of the sector with easy financing and other tax incentives.

Findings of the research

This study is focused on the small and medium enterprises (SMEs) role in Nepal's economy compared with European countries based on scientific evidence. As the role of SMEs is considered critical in any economy, its innovative strategy seems inevitable to boost the sector to sustain. However, it might vary from country to country. In Europe, SMEs alone creates 85 percent of jobs while in Nepal it creates 74 percent. Increasing role of SMEs in the adoption of innovation strategy seems inevitable to sustain the sector. The definition of SMEs varies from country to country. Some countries have categorized in terms of headcount of employees and capital investment, and some have done based on capital investment. It is totally done in national perspectives and domestic laws of the respective countries.

The paper is an attempt to portray the clear picture on how SMEs' role is emerging critically in any kind of economy. Moreover, in Nepal it is inevitable to advance further with the adoption of innovative approach and technology. The rationale for promoting SMEs are presented based on empirical evidence and scientific research papers. This scientific paper is prepared based on the views and opinions of scientists like Joseph A. Schumpeter (1883-1950) and Prof Dr. Jan-Urban Sandal (Norway) including other scientists/authors with a view to understanding the theoretical part in understanding the SMEs potential and development for the economy.

It is significant for economic development to advance the role of SMEs, which can only be achieved through innovation. For this to happen, SMEs can adopt the approach the innovation management theory as discovered by Joseph Alois Schumpeter. According to him, The innovation concept covers the following five cases: "(1) The introduction of a new good – that is one which consumers are not yet familiar – or of a new quality of a good. (2) The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned,

which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially. (3) The opening of a new market that is market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before. (4) The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created. (5) The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through justification) or the breaking up of a monopoly position" [18, p. 66].

In Nepal, SMEs are confined only to the family members and still are not able to go in a commercialized way. This static production environment needs to be changed for which innovation and adoption of new technology is paramount. This innovative approach creates a new form of combinations and activities. This can be done through a partnership with other countries or technology transfer through the knowledge management. In such a context, the country like Nepal can grant aid to invite newer technologies, introduce new products and new services as per the interests of new customers in increasingly competitive markets at the local and international level.

Overall, it is found that SMEs should be operated in an innovative approach; adopt newer technology; facilitate new knowledge and technology transfer through the systematic process with the enforcement of SME Policy.

We would like to give a few recommendations based on the research such as follows:

- The country needs to adopt a strategy to define the SMEs in a professional manner like other countries.
- Introduction of some rules and regulations to encourage the sector in terms of incentives and finance.
- Introduction of SME Policy to consolidate SMEs, which also needs to focus on technology transfer and knowledge management for adopting innovative approach for the advancement of the sector.

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РОЗВИТОК МСП В НАУКОВО-ІННОВАЦІЙНІЙ ПЕРСПЕКТИВІ

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Малі та середні підприємства (МСП) є важливими компонентами для будь-якої країни. Тому потрібне їх систематичне вивчення. У нашому випадку потрібно знайти пояснення, чому МСП важливі, спираючись на їх історичний стан та на те, що вони будуть являти собою в майбутньому. Основна мета статті - провести розслідування зростаючої важливості МСП в Непалі. Аналізуючи малі та середні підприємства Непалу, європейські МСП беруться до уваги, з точки зору інноваційних перспектив та передачі технологій.

На підставі емпіричних доказів та інноваційної теорії управління, запропонованих всесвітньо відомими вченими, в статті подаються спроби знайти рішення, що йдуть інноваційним шляхом для просування МСП та передачі технологій у Непал, науково пов'язані зі слабкою здатністю поглинання МСП. Роль МСП вважається надзвичайно важливою для створення робочих місць та економічного зростання. Уроки європейських та інших розвинених країн могли б перетворити МСП на більш продуктивні за допомогою інновацій та стимулювати їх підтримку в довгостроковій перспективі. Дослідження показують, що визначити МСП в Законі недостатньо для просування сектора. Швидше за все, МСП слід розвивати за рахунок прийняття методів управління інноваціями та передачі технологій з полегшенням від управління визнанням та партнерським підходом до їх стійкості. Висновок: країні потрібно прийняти стратегію для визначення МСП професійно, як і інші країни; запровадження деяких правил і положень для заохочення сектора з точки зору стимулів та фінансування; запровадження політики МСП з їх консолідації, яка також повинна зосереджуватися на передачі технологій та управління знаннями для прийняття інноваційного підходу для розвитку галузі.

Ключові слова: Непал, МСП, інновації, економічний розвиток, управління знаннями, передача технологій.

РАЗВИТИЕ МСП В НАУЧНО-ИННОВАЦИОННОЙ ПЕРСПЕКТИВЕ

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Малые и средние предприятия (МСП) являются важными компонентами для любой страны. Поэтому необходимо их систематическое изучение. В нашем случае необходимо найти объяснение, почему МСП важны, опираясь на их историческое состояние, и на то, что они будут представлять собой в будущем. Основная цель статьи - провести исследование растущей важности МСП в Непале. Анализируя малые и средние предприятия Непала, европейские МСП принимаются во внимание, с точки зрения инновационных перспектив и передачи технологий.

На основании эмпирических доказательств и инновационной теории управления, предложенных всемирно известными учеными, в статье делаются попытки найти решения, для продвижения МСП и передачи технологий в Непал, идущие по инновационному пути и научно связанные со слабой способностью поглощения МСП. Роль МСП считается чрезвычайно важной для создания рабочих мест и экономического роста. Уроки европейских и других развитых стран могли бы превратить МСП в более эффективные с помощью инноваций и стимулировать их поддержку в долгосрочной перспективе. Исследования показывают, что определить МСП в Законе недостаточно для продвижения сектора. Скорее всего, МСП следует развивать за счет принятия методов управления инновациями и передачи технологий с облегчением от управления признанием и партнерским подходом к их устойчивости. Вывод: стране нужно принять стратегию для определения МСП профессионально, как и в других странах; введение некоторых правил и положений для поощрения сектора с точки зрения стимулов и финансирования; внедрение политики МСП с их консолидацией, которая также должна сосредотачиваться на передаче технологии и управления знаниями для принятия инновационного подхода для развития отрасли.

Ключевые слова: Непал, МСП, инновации, экономическое развитие, управление знаниями, передача технологий.

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