THE ROLE AND IMPORTANCE OF INNOVATION IN BUSINESS OF SMALL AND MEDIUM ENTERPRISES

Abstract:

Small and medium enterprises (SMEs) have central role in the global economy as a result of their key features – SMEs are dynamic, easily adaptable and flexible. Today, SMEs are considered to be one of the key driving forces of the economic growth and job creation. Around 90% of all businesses in the global economy are SMEs; their share in total private sector employment is between 61%-81%. One of the main features of the SMEs is the ability for producing innovations. Modern growth theories acknowledge the role of innovation as central to enhancing growth and productivity. Innovations are considered to be the instruments by which the entrepreneur creates new products and augments the current products.

This paper will try to examine the importance of innovation and innovative activities in SMEs. Additionally, the paper will explore some specifics of SMEs, concept of innovation, innovation types and determinants of innovation, as well as the obstacles to innovation faced by the SMEs.

Key words: innovation, innovative activities, small and medium enterprises, competitiveness.

JEL classification: O36, L25, L36
Introduction

There are several reasons that explain the importance of the SMEs in the process of economic growth. Very often SMEs can perform successful diffusion of the latest technologies (e.g. biotechnology). In addition, SMEs are able, more effectively, to meet the needs of a relatively small, but specialized, markets. SMEs have positive impact on the economic growth and competitiveness of the country because of their flexibility, adaptability to market changes, as well as because of their impact on employment and knowledge sharing. They can relatively quickly and without shocks change their productions programs and conquer the production of highly profitable products, as well as give up the production of unprofitable products or products for which there is no demand on the market. All this, together with relatively lower production costs, higher labor productivity, lower transportation costs and more efficient management as compared to big enterprises justifies capital investment aimed towards supporting growth of the SMEs.

SMEs’ activities have large contribution in the production and growth processes in all developed economies. This role of the SMEs is connected to the fact that SMEs’ business initiative very often results in innovation, which, on the other hand, is one of the key sources for economic growth and prosperity in the modern economies. The adoption and implementation of economic policies in economies where the business environment evolves according to the needs of small and medium entrepreneurship takes into account how new policy measures will affect small and medium entrepreneurs, given the fact that they are more flexible, but also more sensitive to changes in the business climate as compared to the large enterprises. On the other hand, SMEs have several innate features resulting from the size that distinguishes them from the large enterprises, such as: fewer employees, less work, fewer customers and mostly operate on local market.

Innovation is particularly recognized feature of the SMEs because of their flexibility to the market changes. Innovative activities and SMEs are closely related – SMEs have to undertake innovative activities if they want to stay competitive, to develop, and to ensure long-term existence, in a dynamic and competitive environment. Having all this in mind, the main objective of this article is to discuss some of the key features of the SMEs, the definition, types and determinants of innovation and the link
between innovation and SMEs, with a special emphasis on the impact of innovation on SMEs competitive ability.

**Specific features of the SMEs**

Numerous definitions for enterprise division can be found in the literature. But companies are usually being divided according to their size to micro, small, medium-sized and large enterprises. The definition of the size of enterprises is usually determined on the basis of several criteria: the legislation of each country, number of employees, annual turnover, value of assets and net profit. The classification of the enterprises in the Republic of Macedonia in the Company Law has been prepared in compliance with the definition of the European Union.²

Micro, small and medium-sized enterprises are the engine of the European economy. They are a key source of employment, creation of an entrepreneurial spirit and innovation in the European Union and therefore, they are a necessity for strengthening competitiveness and employment growth. The new definition of SMEs, which entered into force on January 1, 2005, represents an important step for improvement of the business environment for SMEs and it is aimed towards fostering entrepreneurship, investment and growth.³

The common definition of SMEs at EU level is of critical importance because it is used as a basis for decision-making in the EU legislation, concerning state aid and structural funds. This means that different categories of SMEs (micro, small and medium-sized enterprises) must be defined in a way that ensures economic fairness, i.e. that provides legal safety to companies, while allowing easy application to the administrative systems of the Member States.⁴

Micro, small and medium-sized enterprises are socially and economically important because they represent 99% of the total number of enterprises in the European Union, providing around 90 million jobs

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and have a great contribution to the development of entrepreneurship and innovation. \(^5\) In more details, the importance of the SMEs for the European Union as a whole comes from the following features of the SMEs: SMEs have faster speed of development compared to large enterprises; SMEs are employing more than two thirds of the total number of employees; most business activities in Western Europe are created by the SMEs; over a longer period there is an increasing trend of the number of jobs generated by SMEs, whereas the job generation process in large enterprises shows a declining trend; the role of small businesses in labor-intensive activities is more important compared to large enterprises; average European SME employs five workers; one third of the SMEs are growth oriented; the average age of new entrepreneur is 35 years; one of five companies are established and lead by entrepreneurs.

On the other hand, SMEs face several constraints in terms of organization, management, financing, competition, efficiency, growth and development as compared to large enterprises. Namely, in large companies with many employees organization and division of labor is being easily organized, which is not the case with small companies where an employee must perform several tasks. Small companies may have a significant role in the foreign trade of a country as subcontractors to large multinational enterprises and companies. Their comparative advantage is that they are flexible, can quickly adapt to changes and meet market demands. \(^6\)

SMEs, as well as the large enterprises have their own advantages and disadvantages. The way in which SMEs outweigh their disadvantages and use their advantages depends on the environment that surrounds them. As the most important advantages by which SMEs are easily differentiated from the large enterprises are the following: \(^7\)

- Personalized service: SMEs compared with large companies, have the advantage of offering a personalized service, for example, can more easily ensure that the same worker attends to a customer during the checkout process.

\(^6\) Dostic, M., Menadžment malih i srednjih preduzeća, Ekonomski fakultet Univerziteta u Sarajevu, Sarajevo, 2003, str.23-34.
- Best Customer Service: SMEs tend to be closer to their customers which allows them to better understand customers’ needs, tastes and preferences, and subsequently, SMEs can provide better care for customers, for example, better advice on shopping.

- Better access to market information: the market size and proximity to customers, allows SMEs to better understand the targeted audience and be aware of the new changes that arise in the market.

- Greater flexibility to adapt to market changes: SMEs have a lean structure and form here the advantage of faster and better adaptability to new needs, tastes and preferences of consumers.

- More flexibility to meet needs, tastes and preferences: SMEs also have the advantage of being able to better match the particular requirements of its customers, or make concessions when it requests them.

- Increased capacity for innovation: SMEs have the advantage of being able to innovate constantly, to bring new products, services or promotions to the market without running too much risk.

- Increased capacity of reaction, due to its simple, less rigid structure than large companies. In other words, SMEs have to adapt quickly to market changes, to meet particular needs, or to innovate.

- More rapid and timely decisions, due to its simple and low hierarchical structure: SMEs have the ability to make faster and quicker decisions than large enterprises, which allows them to have greater capacity to reactions.

- Increased ability to correct errors: the size and the structure of the SMEs allows for quicker correction of mistakes, for example, SMEs can have relatively fast reaction in case of product failure, bad campaign, or a bad choice target audience.

- Better handling of complaints: SMEs can better meet customer complaints or critiques, for example, can ensure that a single worker can decide on a reaction connected with the complaints of a given customer i.e. he doesn’t have to consult several employees.

- Increased worker commitment: because of the relatively simple organizational structure and no clear division of the responsibilities in the SMEs, individual workers often contribute significantly in the process of developing and improving the business by giving new ideas and suggestions. This, in turn, makes workers more useful and therefore, more identified and committed.
- Increased worker productivity: less hierarchical structure of the SMEs allows for establishing close, personal relations between the workers and the employer and/or the senior officers of the company, which makes workers more motivated and therefore, increases workers productivity.

In addition SMEs have certain disadvantages compared to large companies which usually are arising from the actual size of enterprises. The main disadvantages of SMEs can be listed as:  

- Possibility for a rapid bankruptcy in respect to large enterprises. It is being statistically proven that 30-40% of small companies cease operations within three years after establishment, and even 60% in a period of eight to ten years. Due to the low degree of division of labor, productivity in small company is relatively low, since one employee can perform various operations and activities, thus reducing the possibility of improvement and narrow specialization.

- The insufficient information is distinctly marked weakness of SMEs.

- Wages in SMEs are generally smaller compared to large companies where workers receive special contributions throughout the year and where workers’ rights are being protected by collective agreements and trade unions. Also, tax evasion is greater in SMEs. For example, in order to avoid tax obligations to the state, often one part of the workers’ salary is being paid directly, "on hand", which is harmful for the country, as well as for the employees themselves.

- The risk of job loss is significantly greater in SMEs, compared to large enterprises.

- SMEs are not competitive on the international market, unless they have joint ventures or act as subcontractors of large enterprises (the so-called economy of scale).

SMEs differ among themselves in the organization of work, organizational structure and the manner of management. While for small enterprises informal organization and simple organizational structure is characteristic, the structure of medium-sized enterprises is more formalized with several levels of hierarchy, defined job positions, clearly established rules and procedures, formalized system of control etc.

8 Шуклев Б., Менаџмент на малот бизнис, Економски факултет Скопје, Скопје, 2006 година, р.35-38.
Concept of innovation and innovation types

There are many definitions for the concept innovation. However, before defining what innovation means, one should make clear distinction between the terms - innovation, invention and creativity. The differences between creativity, inventiveness and innovation, as emphasized in the modern literature, are integral elements of the entrepreneurial process.

Creativity refers to the ability to create new content or process with a certain combination of the current resources i.e. factors of production. Creativity is the basis for innovation, whereas the innovation is a result of being creative. Invention or inventiveness is the process of creating something new. Invention, same as innovation, is a result from the creativity process; however, the appearance of an invention is usually considered a random event, luck or coincidence. Innovation, on the other hand, is associated with definite marketing of a new product, service or technological process, all of which are results from the inventiveness.

According to Joseph Shumpeter, innovation is the introduction of new goods, new methods of production, the opening of new markets, the conquest of new sources of supply and the carrying out of a new organization of any industry⁹. Peter Drucker connects innovation with the entrepreneurship. Innovation is specific instrument of the entrepreneurship which helps the entrepreneurs to exploit changes, an opportunity for starting new business activities, or introducing new products and services. In addition, Drucker emphasizes that knowledge based innovation is the „star of the entrepreneurship”¹⁰. Knowledge based innovation differs from all other types of innovation by two main features – the time needed for transformation of the knowledge based innovation into a product is longer and knowledge based innovation are result of a combination of many different types of knowledge i.e. they are not based on one specific type of knowledge. Porter defines knowledge based innovation as an attempt „to create a competitive advantage by perceiving or discovering new and better ways of competing in an industry, and bringing them to the market.”¹¹ Organization for Economic

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Cooperation and Development (OECD) in 2005 gave a general definition of innovation: *An innovation is the implementation of a new or significantly improved product (goods or services), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.*

Creativity is the process of generating ideas, whereas innovation is a process of transforming ideas into new products, services or processes. Not all creative ideas are necessarily transformed into innovation, but, there is no innovation without creativity. Creativity and inventiveness, as the basis of innovation, are characteristics not only of the entrepreneur, but also of the company, which can act as leader in the innovation process by stimulating innovative and creative activities.

OECD classifies the sources of ideas as internal and external sources. Internal sources of ideas are: research and development; top management; market; production; monitoring of technological development and internal factors that stimulate innovation. External sources are listed as: purchase of technology; cooperation with universities and institutes; cooperation with customers and consultants; scientific and technological literature; patents; commercial literature; fairs, exhibitions, symposia; public programs for support of innovative activities; competitive situation; training; collaboration with suppliers and other companies and legislation, rules, regulations, standards.

Several classification of innovation can be met in the literature. One of the oldest is that of Joseph Shumpeter (1934) who classified innovation in five distinct types:

- introduction of new products,
- introduction of new methods of production,
- opening of new markets,
- development of new sources of supply for raw materials or other inputs, and
- creation of new market structures in an industry.

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According to OECD, four types of innovations are distinguished: *product innovations, process innovations, marketing innovations and organisational innovations*.\(^{16}\)

*Product innovation* is the introduction of a good or service that is new or significantly improved, with respect to its characteristics or intended uses. This includes significant improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (examples for product innovations are: new materials, such as teflon and kevlar; instant photos; camera in a mobile phone; margarine without cholesterol; GPS etc.)

*Process innovations* the implementation of a new or significantly improved production or delivery method. This includes significant changes in techniques, equipment and/or software (examples for process innovation are: introduction of new equipment—laser; sensors; automated equipment; digitization of the printing process).

*Marketing innovation* is the implementation of a new marketing method involving significant changes in product design or packaging, product placement, product promotion or pricing (examples for marketing innovation are: introduction of director exclusive sales; use method variable cost of goods; promotion of a new trade mark; marketing of a new product).

*Organizational innovations* the implementation of a new organizational method in the firm’s business practices, workplace organization or external relations (examples for organizational innovation are: changes in the organization of jobs; the formation of teams doing business improvement; introduction of quality standards etc.).

Another important classification, besides the above mentioned, is the one that divides innovation by the degree of innovativeness\(^{17}\) on incremental and radical innovation. *Incremental innovations* include progressive, continuous and cumulative innovation that does not include new scientific components to improve the existing technology. They refer to the incremental improvement of existing technology or existing production on the market, or represent a modified version of an existing product or process. *Radical innovations* refer to introduction of completely new products, services, new systems of production and

\(^{16}\) Ibid, p.47-52.

distribution that make existing products and services uncompetitive. These innovations may include new technologies or are based on combining existing technologies adapted for new applications.

Today, the ability to innovate is one of the most important factors for creating competitive advantages and success of any enterprise. Innovation is necessary for survival, growth and development of companies and for enhancing the competitive position of the company. Innovative activities allow companies to establish status of a „temporary monopol” and receiving additional, extra profit on that basis.

Innovative capacity varies from company to company and it is determined by a larger number of factors that can promote or constraint the innovation process in the enterprise. The following determinants of innovation can be found in the literature:

- The role of the state in the process of introducing innovations. Many empirical studies find positive relationship between government support and innovation activities – government supports stimulates private investment and innovation.

- The role of the cooperation. The results of research studies usually confirm the positive impact of cooperation on innovation. Cooperation is more common between smaller companies – cooperation is associated with risk sharing and cost division which are more important for smaller enterprises.

- The degree of decentralization in the enterprise. Higher degree of decentralization, together with more informal organizational structures results in more innovative activities.

- The size of the enterprise. Larger companies have better access to capital markets and more own funds to finance risky and uncertain innovation projects, compared with small companies. However, innovative activities in larger companies may be negatively affected because of their tendency to be more bureaucratic and hierarchical. Also, the larger the company the looser is the managerial control on innovative activities.

- **Economic activity of the company.** Results from the survey research (Community Innovation Survey)\(^{19}\) conducted by the Statistical Office of the European Union (Eurostat) confirm that firms working in the manufacturing industry innovate more than the companies in the service sector – this result is valid for 26, out of 28 countries which are included in the survey.

- **Training of employees.** Human capital is an important determinant of innovative activities. Besides knowledge, skills and expertise gained through the formal system of education, continuous investment in human capital, through supporting life-long learning and training have positive impact on the innovation process in the company.

- **The market.** The market as a determinant of innovation is particularly important for export-oriented enterprises. Namely, companies that sell their products or services on foreign markets are under strong competitive pressure; therefore, in order to survive, they must continually produce innovation.

- **Internal communication in companies, the belief that innovation is important and the propensity to risk** are emphasized as additional important drivers of innovation in the research of Wan, Ong and Lee.\(^{20}\)

The innovation ability of an enterprise is not solely dependent on its internal characteristics; the organizations, institutions, regulations and the overall business ambient in which the company operates also influence the capacity for producing innovation. From here, the innovation capacity of a country is complex system that has many different actors. At the macro level, the innovation process in the country is determined by the quality of the interaction between research and development, the demand for innovation, absorption capacity and diffusion of knowledge and innovation through market and non-market cooperation.\(^{21}\) In other words, the degree of innovativeness of the country is a result form the quality of the interactions between the individual components necessary for developing innovative capacity.

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\(^{21}\) Stručna skupina: *Razvoj inovativnosti in tehnologije*,  
Innovation activities in SMEs

Entrepreneurship and innovation are recognized characteristics of SMEs. Namely, to ensure growth, development and competitive market advantage, SMEs must be innovative and creative. SMEs are the center of initiatives where innovation can be initiated and where new ventures begin. In theory and practice, many of today's new products are result of the innovative activity of the small enterprises. One of the critical factors that explain the higher propensity for innovation of the SMEs is the shorter time period needed for commercialization of the innovation. This is due to the fact that SMEs are usually concentrated on one market segment.22

Joseph A. Schumpeter was among the first authors who connected the term entrepreneur with innovation, emphasizing the innovation as a very important feature. According to him, an entrepreneur is a person who initiates change through innovation and new opportunities, while entrepreneurship is the process of „creative destruction” through which current products or methods of production are destroyed and replaced with new ones.23 Hence, innovation as an important characteristic of the entrepreneurial activity is related to the discovery of new markets, introducing new organizational structure, permanent modification technology, introducing new technologies, discovering new sources of energy, introduction of new products and services, modifying current products, discovery of new resources and introducing new working methods.

Based on a survey data, around 30% to 60% of the SMEs in the OECD countries are characterized as innovators in a broader sense.24 Although, they are less likely to conduct research and development (R&D) as compared to larger firms, they are more likely to undertake innovative activities through creating or modifying products or services to meet new market demands, introducing new organizational

approaches to enhance productivity, or developing new techniques to expand sales.

According to another research on innovation and SMEs small businesses’ sector provides a significant contribution to the technological and economic development. In addition, growth and development of large companies’ brands is the result of innovations implemented in the phase when these companies have been small companies; today each large company has once been a small company and due to that reason, it is quite interesting to study its historical development; small companies lack the capacity to implement basic researches, but are very suitable for applied researches; small companies do not have their own research and development units, laboratories and pilot units, and do not possess a lab test of the quality of materials and products; in small companies there is high motivation of employees through innovation to solve numerous problems in current operations and to ensure market success.

The fact that innovations stimulate growth and development of the SMEs has been established in theoretical literature and confirmed in empirical studies. This finding is also valid in the case of Macedonia. Namely, Petkovska (2011) has conducted research on a sample of 480 SMEs and found evidence that the introduction of innovation encourages growth of SMEs in Macedonia. Moreover, the research suggests that the ability of an enterprise to innovate will be greater if it is larger, if it invests in training and education and if the company is an exporter. Economic sector where the company works is also important for the probability of innovation – the probability of introducing innovation is higher if the company is working in manufacturing.

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Table 1: Advantages and constraints for the innovative activities of SMEs

<table>
<thead>
<tr>
<th>Management</th>
<th>Advantages</th>
<th>Shortcomings</th>
</tr>
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<tbody>
<tr>
<td>Absence of bureaucracy; accepting greater risk; fast decision making</td>
<td>Absence of formal and management techniques and skills</td>
<td></td>
</tr>
<tr>
<td>Marketing</td>
<td>Market proximity enables quick response to changing market conditions; able to dominate in niche markets</td>
<td>Little or no market power; poor distribution and logistics; spread to other markets can be very expensive</td>
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<tr>
<td>Organization</td>
<td>Less routine and inertia</td>
<td>Uncertainty and costs</td>
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<tr>
<td>Finance</td>
<td>More efficient R &amp; D, innovation rather cheaper</td>
<td>Difficulties in procuring external funding, relatively high cost of capital, reliance on short-term loans; inability to avoid risk</td>
</tr>
<tr>
<td>Growth</td>
<td>Potential for growth through market niches or strategy of differentiation</td>
<td>Difficult to procure funds for growth; growth entrepreneurs are often unable to manage with growth</td>
</tr>
<tr>
<td>Human resources</td>
<td>Flat management structure</td>
<td>Large fluctuations, lack of formal training</td>
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<tr>
<td>Technical staff</td>
<td>Pursue a few things and are involved in the work of all sectors</td>
<td>Lack of specialists; insufficient competence for R &amp; D activities</td>
</tr>
<tr>
<td>Communication</td>
<td>Effective and informal internal communication facilitates rapid internal problem solving</td>
<td>Insufficient time and resources to create technological external links</td>
</tr>
<tr>
<td>Institutional support</td>
<td>Agency to support small businesses; advice, training assistance programs</td>
<td>High transaction costs for access to support centers; lack of funds to participate in programs to support; no built awareness of the importance of institutional support</td>
</tr>
<tr>
<td>Regulation</td>
<td>Some regulations are less stringent for small enterprises</td>
<td>The system of patent protection is a complex and expensive for small firms</td>
</tr>
<tr>
<td>Cooperation</td>
<td>Flexibility and rapid decision-making makes the company an attractive partner</td>
<td>Asymmetry of power and influence in cooperation with partners; little or no impact on the supply chain</td>
</tr>
</tbody>
</table>

It is obvious that SMEs have comparative advantages in innovation of some degree of technological maturity of the product and branch. At the same time, certain factors act as constraints to the innovative capacity of the SMEs. Table 1 shows the advantages and the constraints for the innovation activity of the SMEs.

SMEs have special advantages in innovation resulting from the absence of bureaucracy; flat management structure; efficiency, mostly informal systems of communication; flexibility, scalability and near the market. The common dominant or innovative advantage is the speed i.e. the time it takes to get products to market as a key factor for success, because of the shorter life cycle of the product and the emergence of imitators. Because the time to come to market is important, speed becomes only competitive weapon. SMEs should take their innovative strengths in order to improve competitiveness. As constraints are concerned, particularly important is the lack of resources to fund innovation that significantly restricts innovation of SMEs. Financing of innovation, as a rule, is very expensive and is characterized by a high degree of risk and uncertainty.

Analyzing the common mistakes made by SMEs in their innovation activities, Kanter Rosabeth Moss suggests that, in order to increase their profits, the SMEs should undertake small, incremental innovations, instead of trying to implement major radical innovations. This type of product innovation can serve as an effective weapon against the competition, because it stimulates the development and enlargement of the company in the short term, while protecting or improving its market position at the same time. Moss suggests introduction of so-called pyramid of innovation in three levels: high, medium and small innovations.

Innovation is essential for the growth, survival and the vitality of the modern enterprise, whereas research and development (R&D) is one of the most important sources of innovation. The result of successful R&D activity is the knowledge that it will be beneficial for both, the company and the consumer. The quality of the conducted R&D activity is positively related to the success of the innovation. Given that the

28 Ibid, p.38.
process of R&D is very expensive and long lasting, enterprises, especially SMEs, are often faced with the dilemma of how to organize the research and how to approach the market.\textsuperscript{30}

Organization and implementation of R&D is complex process. Companies, especially SMEs, face with a dilemma whether the R&D should be conducted independently or they should collaborate with other companies and undertake joint activities. Joint R&D projects are less costly and the activity can be finished relatively faster; however, it also implies results sharing and thus, smaller potential profits. Besides the set options, financially strong companies can buy ready technological solutions from other companies or research institutions.

The second dilemma that SMEs faces is connected with the performance of the market i.e. SMEs have to choose whether they should introduce themselves with fewer products and try to create greater market share (fewer products requires less research) or with more products (diversification which requires much more research activities).

Experiences in improving the competitiveness of SMEs in the developed world show that despite numerous changes and innovations, another important factor for improving the competitiveness are various strategic partnerships or alliances between companies.\textsuperscript{31} These partnerships are defined as managerial cooperation between different companies and they include contractual and collaborative relations between enterprises (such as joint venture, licensed contracts and contracts related to information sharing), as well as organization of joint research programs with wide range of partners: customers, suppliers and competitors from other states. In addition, despite these partnerships, SMEs should establish strong cooperation with universities, institutes and other educational institutions, as well as contacts with public agencies for SMEs’ support. All this will help the SMEs in creating global corporate strategy with a complete line of products, as well as providing comprehensive services to clients worldwide. Also, strategic partnerships allow minimizing costs, strengthening technology of partners and collaborative relations in the R&D area.


\textsuperscript{31} Uloga inovacija u poslovanju malih i srednjih poduzeća
Conclusion

SMEs are the main drivers of economic development. The high degree of flexibility and adaptability to new markets enables SMEs to increase the capacity of resource utilization in the economy. In addition, they promote private ownership and entrepreneurial skills. SMEs are engines of growth in market economies, as well as in the countries in transition – SMEs activities create new jobs, increase the number of the economic entities, improve standard of living and increase GDP and competitiveness of the domestic economy.

Main advantages of SMEs are the following: flexibility to market changes, they represent an important source of innovation, easy human resources managing due to the small number of employees and direct relationship between the owner and employees, greater motivation and a high level of control. On the other hand, the disadvantages of small enterprises can be listed as: inefficiency, as a result of the high production costs per unit of product, lower sales volume, lack of specialization, greater market risk since the work is based on one or few products and difficulties in terms of providing funding.

Entrepreneurship and innovation are recognizable features of SMEs. Namely, to ensure growth, development and competitiveness, SMEs must be innovative and creative. SMEs are the center of initiatives where innovation can be initiated and where new ventures begin. Innovations represent an instrument by which the entrepreneur creates new resources and modifies the current base of resources, to increase the potential for creating wealth. Having this in mind, some authors are completely right when they state that innovation is a specific tool of entrepreneurs, i.e. a tool with which entrepreneurs develop the desired changes. In other words, entrepreneurship is the engine of innovative activities.

Due to shorter channels of communication, informal decision-making and greater flexibility, SMEs have greater opportunity for innovation than the large enterprises. Given that innovation is a prerequisite for ensuring competitiveness, in order to be innovative SMEs should: constantly review their operation and introduce innovations through creation and offer of new products and services; undertake operations on a global and local level by establishing a direct relationship with the final beneficiaries of their products and services; have a good knowledge of their market as well as of the consequences.
that may arise from the undertaken actions; review its capacity for inventiveness and ability to engage partners for research and development activities, as most SMEs do not have a research and development department within the company.

Experiences in strengthening of SMEs competitiveness in the developed world have shown that despite the numerous changes and innovations occurring in companies, important factors for strengthening competitiveness are the various strategic partnerships in these enterprises and their performance in foreign markets.

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