PhD RESEARCH PROPOSAL

TITLE:
INNOVATION AMONG RURAL SMALL AND MEDIUM SCALE ENTERPRISES

By:
George Acheampong
University of Ghana Business School
University of Ghana, Legon
(gacheampong@gmail.com/0267071793)
Background
The dynamic role of rural small and medium enterprises (RSMEs) in developing countries has long been recognized (Kayanula and Quartey, 2000). These RSMEs can serve as engines through which the economic growth and employment objectives of developing countries can be achieved. However, for many years these rural enterprises have failed to grow beyond their micro enterprise nature and sometimes at best their small or medium size (Kayanula and Quartey, 2000). RSMEs face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, high unit costs, poor cashflow (Rothwell, 1991; Rammer and Schmiele, 2008; Parker et al, 1995).

In order for SMEs to overcome the several constraints that they face and grow into large corporate entities; they must be very innovative (Cannarella and Piccioni, 2003). Innovation is referred to as the use of improved products, processes, services, technologies or ideas accepted by markets, governments, and society (Christensen, 2002). Innovation is not the same as invention. Innovation refers to the use of a new ideas or methods, whereas invention refers more directly to the creation of the idea or method itself (Davila et al, 2006). RSMEs need not create a new method but adopting the new methods to make it beneficial to their specific operations. Innovation has been identified as a driver of organisations and nations (Schumpeter, 1911) as it leads to entrepreneurship and hence economic prosperity.

Essentially, innovation is holistic. It covers a range of issues necessary to provide value to customers and a good return to the organization. Buckler (1997) defines innovation as “an environment, a culture - almost spiritual force - that exists in a company” that drives value creation. Innovation cannot be touched, heard, tasted or seen but it can be felt within an organisation. It is possibly best described as an all-encompassing attitude that allows businesses to see beyond the present and create the future (Ahmed, 1998). Innovation typically goes through three stages: idea generation, feasibility analysis and commercialisation in a typical organisation. These stages run in reality concurrently although most academics typically want to explain them sequentially.

Innovation occurs in several functional areas of an organisation. Some key areas have been in product and service innovation (Sundbo, 2003), conceptual innovation (Den Hertog et al, 2010), technological and organisational innovation (Van der Aa and Elfring, 2002), ad hoc innovation (Dolfsma, 2004), administrative innovation (Baba, 2012) and revenue model innovation (den Hertog et al, 2010). The adoption of these innovation approaches is the area on innovation that most organisations are concerned with.

The background of the proposal has established the importance of innovation in SMEs. The next sections look at the problem statement, objectives, theoretical framework, methodology, relevance of study, area of focus under the scholarship programme and the references.
Problem Statement

SMEs are critical to the development of any economy as they usually form the bulk of economic activity (Kayanula and Quartey, 2000) especially in the developing world. Most of these SMEs do not survive their second “birthday” because of certain constraints. These constraints include lack of capital, human resource challenges, market-based challenges, unfavourable legal, regulatory conditions and weak institutional regimes (Abor and Quartey, 2010; Kayanula and Quartey, 2000; Mensah, 2004). Innovation is one of the key means by which SMEs can overcome these harsh business conditions to survive and grow into large corporate entities (Subrahmanya et al, 2010). Academics have studied the various innovations (Sundbo, 2003; Van der Aa and Elfring, 2002) that can be adopted by SMEs. These studies on innovation have focused on process and technological innovation (Hoffman et al, 1998; Julien et al, 2004; Kalantaridis, 2010). Few studies have looked at organisational innovation among SMEs with the exception of Salavou et al (2004) who looked at organisational innovation in SMEs from the context of strategic orientation and competitive structure in Greek SMEs. This study will consider the spread of organisational innovation among rural SMEs. There have also been studies on the spread and adoption of innovation (Hinson, 2007; Klaas et al, 2010). Several models have been developed regarding the spread and adoption of innovative methods (Wade, 2009). Theoretically, the question still remains: what conditions are necessary to spread of innovation among rural enterprises? Do these innovations lead to rural enterprise success? Also, few studies have focused on a qualitative approach (O’Dwyer et al, 2009) with most studies focusing on quantitative approaches (Udry and Goldstein, 1999; Nordman and Tolstoy, 2011; Salavou et al, 2004; Subramanyah et al, 2010) in studying the phenomenon. SMEs tend to have flexible organisational structures therefore conducting qualitative research will afford the opportunity to observe their innovation processes in real life situations using ethnographic case studies. This study will therefore adopt a qualitative approach using multiple case studies that present the real situations within which innovations have to be adopted and their impact on SMEs overall success or failure.

Objectives of the Study

The aims of this study are:

i. To identify the sources of organisational innovation in rural small and medium scale enterprises (RSMEs)
ii. To determine how innovation spreads among rural SMEs
iii. To explain the conditions necessary for the spread of organisational innovation among RSMEs
iv. To explore the impact of type of enterprise on the nature of organisational innovation adopted
v. To understand the impact of organisational innovation adoption on RSME success and growth
Theoretical Framework

Innovation in SMEs

SMEs are a widely discussed phenomenon among academics and policy makers. However, there is no clear definition of what it is. This is largely because companies differ in their levels of capitalisation, sales, profitability and employment yet these have been the bases for definition (Lopez and Aybar, 2000). Using these measures in defining SMEs therefore becomes unreliable (Kayanula and Quartey, 2000). The generally accepted definition is Osei et al (1993) categorisation using employees- a micro enterprise as one with less than 5 employees; small enterprise as one with 5 to 29 employees while a medium enterprise is one with 30 to 99 employees. In terms of characterisation, Fisher and Reuber (2000) mentions labour characteristics, sectors of activity, gender of owner and efficiency (c.f. Abor and Quartey, 2010) as key attributes characterising SMEs in the developing world.

There is no ‘general theory’ of innovation. Many researchers believe a general theory is impossible due to the many complexities of innovation (Read, 2000). However, there is the general believe that it is the adoption of new ideas and methods to enable organisational survival and success (Drucker, 1985). Innovation comes from R&D that is mainly organisation knowledge accumulation and imitating the innovations of other firms. Several researchers have found differing ways by which this can be made possible. Inauen and Schenker-Wicki (2011) mentions openness to outside-in methods; Cottam et al (2001) suggests a strategic direction; Ortt and van der Duin (2008) also proposes a contextual approach; Ahmed (1998) also found organizational culture as key.

The SME innovation link has been explored by several researchers and academics (Amara et al, 2008; De Vrande et al, 2008). The results are controversial despite the universally accepted belief that innovation leads to greater firm performance. Rosenbusch et al (2011), in their meta-analysis of the relationship between SME innovation and performance, found that innovation-performance relationship is context-dependent. This suggests that within the SME context, innovation does not just lead to direct performance; there are other intervening variables like size, age and type of innovation.

The contextual factors that are discussed by Rosenbusch et al (2011) change, and make it difficult for SMEs to know what degree of innovation is needed within the context-specific issues. Amara et al (2008) provide a solution in their study of manufacturing SMEs by suggesting that SMEs engage in a process of learning. The current trend in SME innovation is towards open innovation which is the purposive inflows of knowledge in and out of SMEs (Martinich, 2005). De Vrande et al (2008) studied management challenges of innovation and report that SMEs pursue open innovation primarily for market-related motives and challenges relate to organizational and cultural issues as a consequence of dealing with increased external contacts (De Vrande et al, 2008).
In terms of the sources of innovation studies have reported personal relationships, professional relationships, proximity to similar firms are as crucial (Cecci and Lubatti, 2012; Davenport, 2005). In terms of the factors affecting the spread of innovation the literature reports interrelationships with other firms, training programmes, culture, nature of markets and usefulness of technology (Panuwatwanich et al, 2009; Nasco et al, 2008).

**Theoretical Fields**

The study will fall on the Diffusion of Innovation (DOI) theory, Technology, Organisation and Environment (TOE) framework, organisational innovation (OI) framework, and institutional theory.

DOI is a theory of how, why, and at what rate new ideas and technology spread through cultures, operating at the individual and firm level. DOI theory sees innovations as communicated through certain channels over time and within a social system (Rogers 1995). The study will use this theory as the basis for spread of organisational innovation among rural SMEs. The theory provides categories for analysing the stages of innovations among these rural SMEs, considering the cultural and particular social system.

The TOE framework, developed in 1990 (Tornatzky and Fleischer 1990), identifies three aspects of an enterprise's context that influence the process of adopting and implementing technological innovation: technological context, organizational context, and environmental context. This framework will help understand the innovation context of SMEs and how the organisation and environment affect SME innovation.

Organizational innovation (OI) refers to the creation or adoption of an idea or behaviour new to the organization (Damanpour 1996). OI is made up of three dimensions: systems, primary and secondary dimension (Van der Aa and Elfring, 2002). This model forms the basis of the current study to understand how, as organisations, SMEs receive new ideas and methods in their businesses. The absence of a general theory of innovation points study towards this model.

Institutional theory discusses the deeper and more enduring parts of social structure. It explains how social structures are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse (DiMaggio and Powell, 1991). This theory is applied in the study to understand the prevailing rural institutions affecting the adoption and use of innovation.

**Methodology**

An in-depth multiple case study methodology underpinned by ethnographic data collection methods will be used for the study. This research method is consistent with the philosophy of inducting theory, combining ethnography and case studies (Eisenhardt, 1989). Previous exploratory studies have used extensive statistical survey techniques to develop the key issues in the area of innovation in SMEs (Nordman and Tolstoy, 2011; Subramanyah et al, 2010).
However, this study attempts to obtain deep rich data on organizational innovations among SMEs, using ethnographic data collection approaches. The strengths of building understanding from cases using ethnography includes the possibility of generating new in-depth insights through data of various kinds from various sources (Creswell, 2007). The resultant understanding and models are likely to be valid as they are closely linked with case evidence with multiple data collection methods (Hernes, 2008; Yin, 2004). A group of case SMEs from will be chosen from various sectors of rural economy. All of the SMEs must be trying to improve their businesses by applying various management philosophies, mainly new innovation. The research study is expected to involve ten SMEs (located in rural areas), all with fewer than 100 employees to investigate the organizational innovation in SMEs. Rural SMEs (RSME) refers to SMEs located outside Metropolitan areas with literacy rates less than 40%, agriculture/agriculture-related dominant employment of about 70% and a per capita income of GHC 500 or less. The rural communities will be determined using information from the Ghana Statistical Service.

Organizational innovation and its components will be used to carry out initial measures of innovation. Each RSME will be given an innovation rating. The data will be obtained from: 4 weeks of participant observation in each of the 10 RSMEs working as a business services provider. The analysis of data will be by means of inductive-based analysis mainly using data display and analysis (Miles and Huberman, 1994) and analytic induction (Johnson, 2004). Evidence will be collected in the form of taped interviews, pictures and field notes using the daily diary approach. Also, focus groups representing a “diagonal slice” through the organization will be interviewed to give broader and deeper data and to obtain triangulation (Saunders et al, 2007; Malhotra and Birks, 2007).

Relevance of Study
The study is significant for four main reasons. First, the study helps identify the sources of innovation among RSMEs; these sources can then be influenced to include any future innovative methods that can impact positively on rural enterprises. Second, an understanding of the conditions necessary for spread of innovation will help organisations training RSMEs to focus on achieving these conditions and desired effects. Third, knowing the discriminating effect of type of RSME on adoption behaviour will help target specific innovations to specific RSMEs. Finally, understanding the relationship between RSMEs success and innovation adoption will build confidence for these enterprises to easily adopt any future innovations that enhance their organisational effectiveness.

Area of Focus
The academic area of focus is Innovation and Diffusion Processes. It has cross-cutting issues with rural livelihoods and upgrading and innovation.
References


