Innovation and SME Deficiencies in Management and Education and a Step Forward (draft)

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Abstract

The Lisbon Strategy deserves respect, despite all its peculiarities and flaws: The economies of the EU-Member states need to increase their competitiveness, to cope with the international competition and especially for the new members to strengthen their strategy of catching up. And due to the fact that theses economies are characterised by SME – the strategy has to be focused on them.

Here, certain deficiencies can be found:
- in managerial weaknesses
- in the innovation process

The step forward is not only the analysis itself and some conclusions being drawn from it. It is the presentation of an institutional initiative which is established to improve the cooperation among the main actors in this field (science, enterprises, politics, public administration) in order to build bridges between the different steps of the innovation process and its implementation. The paper ends with a proposal to improve the academic education in the field of the process of innovation.

JEL classification numbers:

Keywords:

1. The problem

This analysis of deficiencies draws on the analyses about Central and Eastern Europe (CEE) and its managerial gap (see part 2), the basics of the innovation process (see part 3) as well as the first steps do diminish these deficiencies (see part 4). It closes with some conclusions for the process of innovation and for educating it.

All in all I intend to present some theoretically based ideas how to improve the process of innovations by implementing institutions to foster it – the very task of MOEZ whose acting director I am.

2. Analyses about deficiencies in CEE

"Compared with the scientific performance of its principle competitors, that of the EU is excellent, but over the last fifteen years its technologic and commercial performance in high-technology sectors such as electronics and information technologies deteriorated".

Ten years later and after launching the Lisbon Process and the Research Program 6 the "European Innovation Scoreboard" (EIS) stated two results: The EU

economies have been improving their competitiveness. But: The US and Japan are still far ahead of the EU.

Now we are going to launch the 7th program to increase the rate of innovations inside the EU and its neighbours. The funds are increased considerably. Will the rate of innovation follow?

On the one hand these deficiencies are no surprise; because all are countries which are transforming their complete institutional infrastructure, including the introduction of a market economy.

2.1 Some facts

More important are three facts. Firstly, according to estimations of the European Bank for Reconstruction and Development (EBRD) of 1999 the importance of SME in CEE is quite lower than in other EU countries: only half of the employment is working in SMEs, a low rate compared with the "old" EU countries. This means that the potential of flexibility, dynamism and innovation is lower and the process of implementing innovations is of another kind, probably slower.

Secondly, there is a considerable lack of entrepreneurial leaders and management skills.

Thirdly, many weaknesses are threatening because the public and the governments do not pay enough attention to them.

2.2 Strengths, Weaknesses, Threats and Opportunities

Strengths

- Some strengthening of the institutional framework for SME training via Small and Medium Enterprise Development Agencies (SMEDAs), Business Support Centres (BSCs) and through Phare/ Tacis/USAID and British Know-How Fund
- Focus on the development of Phare vocational education and training programmes will assist SMEs indirectly
- Donor agencies do focus on DME training in some situations (i. e. USAID's programme of BSCs in Ukraine, Russian Federation and the British Know-How Fund in Romania and Ukraine)
- Considerable progress appears to have been made in strengthening some business schools and general management training.

Weaknesses

- At the policy level, training for entrepreneurs and SMEs has a low priority. It becomes a poor third or fourth rang after deregulation, finance, institution building and advice
- There have been few, if any, training programmes focussed specifically on small growth companies
- Some programmes are too ambitious for the local economic, social and institutional climate
- Few programmes are needs-driven and tailored to the local situation
- A lack of coordination has created project difficulties
- There are doubts over continuity and sustainability

- There is little document evidence of impact
- There is little substantive evidence of effective working models of training entrepreneurs and SMEs in Central and Eastern Europe and the New Independent States
- SMEDAs and BSCs reach a very limited number of SMEs

Threats

- Loss of momentum if the SMEDAs and BSCs cannot be self funding
- Low priority given to enterprise and SME training in the early stages of restructuring has led to a poor foundation
- Disproportionately low emphasis on SME training compared to their place in the economy
- Inabilities of the institutional environment to tune in to entrepreneurs, micro businesses and SMEs which are a significant sector of most Central and Eastern Europe/New Independent State economies
- The informal economy in New Independent States is a challenge to the development of projects and programmes
- Inability to develop a market for training for SMEs

Opportunities

- Develop programmes which are tuned to entrepreneurs and SME business needs locally
- Develop training interventions, which reflect the modus operandi of entrepreneurs and SMEs and emphasise learning and knowledge transfer
- Develop new training 'models' based on the problem – classroom-experience approach with the trainer as coach and facilitator
- Improve pre-project development, promotion and selection of beneficiaries
- Link training to other programmes such as credit line extension

2.3 Some conclusions

These findings are threatening the economic and social development. The distribution of entrepreneurial and management skills is far more heterogeneous than in other countries: There exists still the attitude of big enterprises purchased or established by FDI or having joint venture. New SMEs are left alone in an environment with no broad support for private enterprises inside the society and insufficient by education support to reduce any deficiency in management.

This status has three consequences due to the fact that the SMEs are weak. One eminent backbone of the society and a market economy is weak, the process of implementing innovations is impeded and the cooperation on the field of innovations is still weak and to much one-sided.

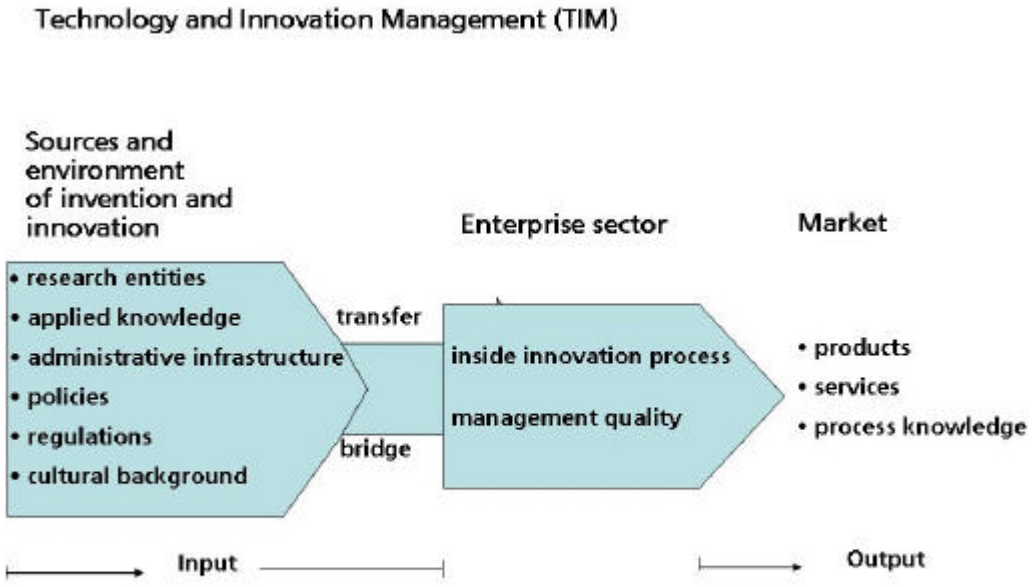
3. The innovation process

When we combine the before stated deficiencies and the findings then we easily find two areas for necessary action and improvement: The establishing of an innovation process towards the enterprises especially for invention being made

outside the enterprises. Improving the abilities *inside* the enterprises to transform inventions into innovations and to sell the results on the market (see figure 1).

Due to the fact that in both areas we recognize weaknesses, we have an opportunity and duty to fill these gaps by education on all levels.

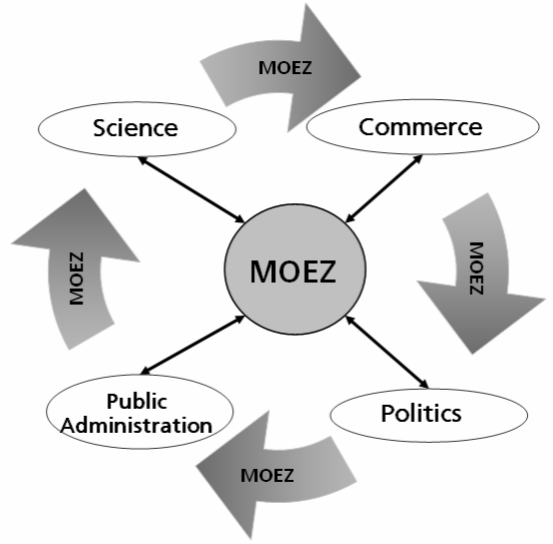
Figure 1



4. MOEZ[1]: turntable for communication

The process of improving innovations especially in or with CEE countries needs support. On this theoretical basis an institution is established to fill this gap.
Is main task is to establish a turntable for communication to coordinate the four main actors on the field of innovations and of the process of innovations (see figure 2) with the regional priority Central and Eastern Europe and beyond = CEE plus.

Figure 2



5. Conclusions for implementing innovations and for education

The innovation process should be supported by building bridges between the main actors of this process: science, enterprises, politics and public administration.

Due to the fact that for the outside area and the inside area of the innovation process special qualifications are needed and that nowadays a scarcity is given education has an important and permanent task in enterprises, in universities' curricula and even very early in schools. Some examples will be presented how to realize this.

[1] MOEZ = Fraunhofer Centre for Central and Eastern Europe