

[2]

**FACTORS IMPACTING INNOVATIVE CAPACITY
OF SMALL- AND MEDIUM-SIZED ENTERPRISES
IN CAPE TOWN**

Tapiwa Furawo

Corporate Business Development Consultant

tapson@outlook.com

Christo Abraham Scheepers

MANCOSA

info@christoscheepers.com

ABSTRACT

In emerging economies, Small and Medium-sized Enterprises (SMEs) play a leading role in the sustenance of the economy. In South Africa, as a result of the volatile economic environment, no more than 50 percent of SMEs survive the first five years from commencement. Surviving firms are those that have the capability for sustainable innovation, which is the cornerstone for bolstering competitive advantage and growth. This article seeks to explore factors that impact on the innovative capacity of Small and Medium-sized Enterprises in Cape Town. This research study undertook a phenomenological purposive approach, using a semi-structured interview as the research instrument. The sampling strategy was a mixture of critical case and convenience sampling techniques. Subsequent analysis of the resultant phenomenological data revealed innumerable challenges ranging from poor management skills among SME leaders, constraining legislation, limited or inaccessibility to funding, to the turbulent economic and business environment, as the factors impacting innovative capacity among SMEs. A general display of the incremental level of innovation across the SME sector in Cape Town was also noted. Radicalism is employed by a few

firms, as slight changes or improvements to existing products or services is a preferable strategy for greater SME populace in Cape Town.

Keywords: innovation, innovation levels, innovative capacity, small and medium-sized enterprise, SMEs

1. INTRODUCTION

Chittithaworn et al. (2011:180) recognise Small and Medium-sized Enterprises (SMEs) as fundamental blocks that build economies, noticeably because SMEs are key for production, employment and revenue generation. The health of the SME sector is a fundamental determinant of the health of a nation's economy (Chittithaworn et al., 2011:180). The National Credit Regulator (NCR) highlights a consensus among government, economists, and business leaders, on the pivotal role undertaken by SMEs in sustaining the South African economy (NCR, 2011). Their contribution to poverty alleviation by creating jobs and sustaining export and import markets, is matchless.

Global trends project a growing SME sector across markets, but in South Africa, there seems to be considerable contraction of this critical economic sector (SME Growth Index, 2015). Mboniyane and Ladzani (2011:552) argue that more than 50% of SMEs in South Africa are suffering an immature death. According to Razak and Othman (2012:165), companies that achieve meaningful growth, catapult their competitive advantage by incessantly innovating, without which failure is inevitable. Deductively, successful organisations are dependent on their innovative capacity and sustainable competitive advantage. Hence, in South Africa, SMEs who seek to survive must engage a winning strategy which upholds an in-depth understanding of the factors impacting on their innovative capacity. This draws on their understanding of innovative capacity as the main driver of a firm's sustainable competitive advantage. This research seeks to provide understanding to entrepreneurs, SME managers, policy-makers and thought leaders, of the factors that impact the innovative capacity of Small and Medium-sized Enterprises in Cape Town.

1.1 Research questions

This research sought to explore factors impacting on SME innovative capacity. It identified the following four core questions:

- What are the levels of innovation among SMEs in Cape Town?
- What factors impact on an SME's capacity to innovate sustainably and maintain competitive advantage?
- What impact do innovations have on the competitive advantage of SMEs in Cape Town?
- What recommendations can be made that would improve the innovative capacity of SMEs?

2. LITERATURE REVIEW

Literature agrees that novel research prevails when argued against an existing body of knowledge (Saunders et al., 2012: 46; Seuring & Gold, 2012:544). Hence, in setting up a platform for this study, a review of substantial literature was done with the intent to understand definitions of terms, as well as the place of innovation in catalysing competitive advantage among SMEs.

2.1 Defining Terms

2.1.1 Small and Medium-sized Enterprise

The task of precisely defining Small, Micro- and Medium-sized Enterprise (SME/SMMEs) in South Africa is perplexing, as there is a notable variance in definitions. Capitalisation, sales margins and employee totals are some of the factors that dictate the variance (Asah et al., 2015:310; NCR, 2011).

Depicted in Table 1 are the definitions of an SMME based on the number of employees, annual turnover and gross assets. A medium-sized firm, for example, depending on the industry, will have employees fewer than 100 to 200, with an annual turnover of less than four to fifty million Rand and a gross asset not exceeding two to eighteen million Rand.

Table 1: Broad definition: SMMEs in the National Small Business Act

ENTERPRISE SIZE	NUMBER OF EMPLOYEES	ANNUAL TURNOVER	GROSS ASSETS, EXCLUDING FIXED PROPERTY
Medium	Fewer than 100 to 200, depending on industry	Less than R4m to R50m, depending on industry	Less than R2m to R18m depending on industry
Small	Fewer than 50	Less than R2m to R25m depending on industry	Less than R2m to R4,5m depending on industry
Very Small	Fewer than 10 to 20 depending on industry	Less than R200 000 to R500 000 depending on industry	Less than R150 000 to R500 000 depending on industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Source: NCR (2011)

This study borrows the definition cited by the National Credit Regulator (2011), as well as Mbonyane and Ladzani (2011), as the official definition of an SME in the context of South Africa. It is the definition given in the National Small Enterprise Act, 1996 (Act No. 102 of 1996) and amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act). An SME, according to the National Small Enterprise Act, 1996 (Act No. 102 of 1996), is

...a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more, which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a very small, a small, a micro- or a medium enterprise (SMME).

2.1.2 Innovation

Innovation constitutes the adoption of a new idea or behaviour for the bettering of the *status quo* (Jime'nez-Jime'nez & Sanz-Valle, 2011:409; Saunila, 2016:163). It catalyses the birth of typically new products, processes and novel ways of working. It champions change and the discovery of what works better by embracing exploration of uncharted territories.

Baregheh et al. (2009:1324) find innovation to be a specific function by which an entrepreneur endows prevailing capitals with improved potential for wealth creation or creates completely new wealth-producing resources. From an holistic view point, innovation encapsulates all activities and processes that are supreme to value addition and enhanced bottom line. Innovation engenders sustainable competitive advantage among firms (Saunila, 2014; Ceylan & Koc, 2007).

2.1.3 Innovative capacity

Literature notes the definition of 'innovative capacity' in two dimensions, the one in reference to an entire region, nation or economy and the other, narrowly, to a single firm (Khardayev, 2009:23; Olsson et al., 2010:167). Khardayev (2009:23) outlines that in 1990, Professor Suarez-Villa was the first to coin the term 'innovative capacity', referring to a measurement of economic activities, innovation potentials and invention levels of national or geographical area.

Noticeably, sundry research projects on innovative capacity espoused their definition in reference to economies and regions and little was done to understand its implications at the level of a firm. In this research study, innovation capacity is defined in reference to a firm and not a region.

With reference to a firm, innovation capacity implies the firm's potential to incessantly produce innovative outputs (Olsson et al., 2010; Perdomo-Ortiz et al., 2006; Saunila, 2014). A company's innovative capacity is borne from

harnessing its resources, capabilities, culture and networks into critical success factors in its innovation processes (Neely & Hii, 2012:49).

2.2 Economic roles: SMEs, innovation and innovative capacity

2.2.1 The economic role of SMEs

The unequivocal contribution by SMEs to economic growth and stability in developing countries, such as South Africa, is absolute (Wonglimpiyarat, 2015). Naudé (2007:3) submits that in European, Middle East and African (EMEA) regions, 98 percent of all firms are SMEs, and their business activities deliver 54 percent of the total bottom line. In South Africa, the Davis Tax Committee (DTC) concurred and highlighted the National Development Plan (NDP) as proponents of the superior contribution by SMEs in alleviating poverty through creating jobs (DTC, 2014). By the year 2020, SMEs will produce 90 percent of jobs in South Africa (DTC, 2014).

2.2.2 Innovation and innovative capacity: Backbone to SME growth

Pivotal for success in the SME sector is a firm's aptitude in exploiting emerging technologies to their competitive advantage (Jasińska-Biliczak et al., 2016:1). Undermining a firm's capacity to innovate leads to its probable demise. Hence, an organisation's positioning in demanding contemporary markets, such as South Africa's, is underscored by its capacity to innovate (Marques & Ferreira, 2009:53). Agility and a pursuit for value addition defines such SMEs.

2.3 Levels of innovation

Literature describes the levels of innovation as incremental, semi-radical and radical (Goktan & Miles 2011:536; Harris et al., 2013:104; McAdam et al., 2014:67). Table 2 depicts radical innovators as those who bring disruption to the fundamentals of business in their industry. Incremental innovators are the firms who seek to improve existing systems, services or products. Self-destructing companies have their processes and efforts non-supportive to innovation.

Table 2: Levels of innovation

LEVEL OF INNOVATION	ACTIVITY
Radical	Revolutionary products, services or systems are created to radically transform the way business is done. Usually involves huge investments with very high risk. The payoff is limitless.
Incremental	Slight enhancements to existing products, services or system. There is minimal investment toward innovation and a subsequently low risk. The returns are usually minimal as well.
Lack of Innovation	No supportive environment for innovation to thrive

Source: Harris et al. (2013:104)

2.4 Differences in industry

Goktan and Miles (2011:533) suggest that the pace at which firms innovate vary, depending on the industry. For instance, the high-technology industry is fast-paced and SMEs constituent in the sector must always harness their resources and advance innovation. Other industries may not be as fast-paced. Nonetheless, to reinforce their competitive advantage, despite which industry it may be, SMEs must be dynamic in supporting their innovative capabilities (Scarborough et al., 2009:445).

2.5 Challenges in the South African SME sector

The overall economic contribution and future statistical projections of SMEs are impressive, but in South Africa, research shows that productivity in the sector is marred with failure (Asah et al., 2015:310). The reason for South African SMEs failing to thrive is a cause for concern, with the failure rate sitting between 70 and 80 percent (van Scheers, 2010:225; Chittithaworn et al., 2011:180).

2.5.1 Overcoming the challenges

2.5.1.1 Leadership and a firm's innovative capacity

Mbonyane and Ladzani (2011:552) suggest a lack of leadership and managerial skills in the SME sector when it comes to the management of creative ideas and innovation capacity. If SMEs are to realise sustainable innovation, they need to participate in evangelising the need to be knowledge-intensive in their firms. Saunila (2014:164) describes a participatory leadership culture as one formed by firm leaders whose advocacy for innovation inevitably creates an aura of creativity all around the organisation. Understanding innovation must become a prime focus for both employees and their managers (de Miranda et al., 2009:524).

2.5.1.2 Planning innovation

Filippetti (2011:6) argues that a firm's innovative capacity is augmented by its ability to forecast, plan, design, schedule and organise its innovation activities in incremental steps. SMEs must strategically position innovation as a business priority without which they have a fatal plan.

Jasińska-Biliczak et al. (2016:1) submit that sustainable and systematic innovation requires discipline. Viable innovations cannot be erratic, but must rather be perpetually sustained by an environment that embraces new ideas.

The innovation model shown as Figure 1, depicts innovation as the epicentre of a modest organisation. In competitive firms, innovation feeds the sustenance of the firm's strategy, all its capabilities and insights. An environment that does not embrace new ideas, undermines the firm's ability to realise its vision, goals, technological needs or, even worse, fails to understand its customers and marketing channels.



Figure 1: Innovation Model

Source: Muldoon (2012)

2.5.1.3 Innovation culture

In planning innovation for enhanced competitive advantage, SMEs must strategically consider its integration into its overall organisational culture. When SME managers and leaders become proponents of progressive thinking and creativity, they create an innovation culture for their businesses (Inauen & Schenker-Wicki, 2012:214). A growing body of literature submits to the fact that, within an organisation, innovation culture (Figure 2) is a product of the organisation's steadfast strategic plan to be creative (Giddens & Sutton, 2014:100; Laegreid et al., 2011:1322).

2.5.1.4 Government and policy-makers

Considering the respectable role played by SMEs in economic expansion, government must assist in the creation of a favourable environment that embraces and encourages SME activities. In South Africa, sadly, though the government has taken meaningful steps in supporting small businesses,

there remains profound ignorance in the sector regarding government initiatives that support SME innovations (Urban & Naidoo, 2012:147). Much needs to be done to ensure collaboration between these two partners.



Figure 2: Innovation culture circle

Source: Hapsis Innovation (2016)

2.5.1.5 Self-Awareness at the level of a firm

Successful innovative companies are self-aware of their competences regarding innovation. Understanding one's innovation aptitude is pivotal for personal development and preparedness (Marques & Ferreira, 2009:52). SMEs that are self-aware are agile and able to consolidate quickly and execute decisions that will solve problems or improve situations (Antoncic et al., 2016:91). Sustainable innovation prevails in organisations that are fully confident and able to engage all the skills and resources at their disposal. Without engaging in self-introspection that analyses strengths and weaknesses, opportunities and threats, there is a greater likelihood that the firm will misdirect effort and resources. On the contrary, self-aware firms invest in building firm-specific capabilities that yield competitive advantage by making the right decisions regarding the traditional core issues such as product life cycle, branding, management of proprietary assets, and pricing and globalisation (Kaya and Edern, 2008:762).

2.5.1.6 Learning and innovation

Saunders et al. (2013:136) argue that innovating SMEs are those whose shared vision and culture is a proponent of learning. Knowledge, whether formally or informally acquired, is a strategic resource. Contemporary studies note a correlation between strong innovative capabilities and a purposeful engagement with learning (Jasra et al., 2011:276; Saunders et al., 2013:136). Learning lubricates the engine that generates new ideas, making it invaluable for a competitive SME.

2.6 An overview of the study location – Cape Town

Limited resources and the need for feasible and credible research narrowed the research population and sample to SMEs in Cape Town. Entrenching the southwest coastline, Cape Town is a portal city and business hub of the Western Province of South Africa, with noticeably high entrepreneurial activities. The State of Cape Town Report announced its population growth between the years 2001 and 2011 to be over 39 percent (State of Cape Town Report (SCTR, 2014). This research study takes advantage of the fact that none of the copious research activities on SMEs in Cape Town, have explored the factors that impact their innovative capacity.

3. RESEARCH METHODOLOGY

The fundamental questions “what”, “why” and “how” SME innovation capacity is impacted, required answers, hence the phenomenological approach is taken in this study. Phenomenology takes the philosophical viewpoint to understanding people’s experiences and how they interact with the world around them (Saunders et al., 2009). The research methodology was also informed by the need of a small sample, owing to monetary and time resources.

The phenomenological perspective underlying this study sought for meaning, rather than quantitative data. It is the experiences of the respondents and their understanding of what, why and how a firm’s innovation capacity is impacted, that is of concern. The exhaustive insight of the participants, as well as their integrated feelings in defining the

factors that impact on the innovative capacity of firms, their perception of innovation levels and the role innovation plays in enhancing competitive advantage, were sought by this research.

Thus, although a quantitative approach could have been engaged in order to appreciate the subjective experiences, understanding, intuition, motivation and actions of the participants, a qualitative viewpoint became more valuable. The exploratory research design guided the research, as it has at its core, the fundamental ability to identify factors or variables impacting or causing a phenomenon (Creswell, 2012).

3.1 Sampling and sample size

In search of harvesting meaningful data that answers the research questions, this research study set out to engage participants whose role is owner or manager of an SME in Cape Town. The decision was guided by an underlying assumption that these are persons who would be more informed and/or experienced enough to understand how and by what, their firm's strategic plan and more so, innovative capacity, is being impacted. The assumption borrows from VanScoy and Evenstad (2015:340), who argue that viable phenomenological data is attainable if the sampling strategies seek to find subjects who, by virtue of personal experience and accumulated knowledge, can substantially provide meaningful and unique information borne from their own experience or perception of the phenomenon under inquiry.

A sample of eight SMEs were selected from across industries in Cape Town. Considering that the research study is fundamentally phenomenological, the assumption was that the experiences and perceptions of these eight subjects would mirror adequately, for the purposes of this study, the target population. It was not feasible for all industries to be covered owing to limited resources, hence the sample size was kept small, but effort was made to select the subjects, by all possibilities, from a divergent industry space. The decision to diversify respondents was to ensure that the harvested data comes from subjects of varying experience.

4. DATA ANALYSIS

4.1 Thematic qualitative analysis

Qualitative data was obtained from open-ended questions as reflected in an interview guide used. The participants were invited to participate in the study through an invitation letter that outlined the purpose of the study, their participation, maintaining confidentiality and anonymity, and ensuring that there is no harm to participants. The same questions were asked of all eight participants. This research study undertook a thematic analysis approach.

Thematic analysis, in essence, classifies qualitative data by means of detecting patterned meaning in a dataset (Tummons, 2014). The reason for choosing the thematic analysis approach was because it allows for "encoding qualitative information" (Tummons, 2014:155) by means of identifying, through analysis, patterns or themes of the collected qualitative data. Thematic analysis was effective in organising and describing the collected data, which was rich in detail (Braun & Clarke, 2006:79). A theme highlights interesting and key features within the data to respond to the research question. In this research, themes drawn from the data manifested the characteristics of logic, consistency and uniqueness.

Analysis of the accumulated data led to the drawing up of various themes whose key features responded to the research question. Where appropriate, research results were correlated to reviewed literature in order to bring context to bear.

4.2 Themes

4.2.1 The innovation concept

The research interview questioned the respondents on how they conceptualised innovation generally, as well as within the context of their business. In reviewed literature, the innovative capacity of a firm was noted to be fundamentally core for sustainable competitive advantage (Saunila, 2014:164). Without clearly defining innovation and its role in the context

of both their industry and business, firms will be challenged to prioritise management of their innovative capacity.

Participants gave varied responses on how they conceptualised innovation depending on their business or industry, but typical was the concept of product and or service improvement to create a better client experience. Innovation was described as the fundamental process by which a business embraces evolution of its processes or products in a bid to find new ways and routes that solve operational and strategic problems. A further impression was that innovation is imperative in the development and maintenance of a strong client-centric culture in a business on the basis that it is through continuous innovation that a business attends to the needs of its target market. Another highlighted concept of innovation was that it is the lifeblood to business success, a vital constituent of sustainable business success.

The various thoughts derived from how innovation is conceptualised thoroughly, shows how extensively it permeates and impacts business processes. This is a notion supported by literature which views business success as a product of one's ability to tap innovative ideas from its diverse human capital and any other source at its disposal (Porter-O'Grady & Malloch, 2015:99).

4.2.2 Levels of innovation

Analysis of responses indicate that local SMEs tended not to engage in radical innovations but instead focussed more on incremental innovations to develop their businesses. Incrementalism is the process by which firms improve just some portion or aspect of a product or service. Radical ideas and endeavours are represented in the minority as compared to the bulk of incremental innovations in the SME space. With consideration that any service or product that a business offers must meet the requirements of its target market, analysis of data concedes to the fact that the choice between conservative and radical innovation hinges more on the needs of the market than the specific business itself.

4.2.3 The knowledge concept

4.2.3.1 Intra-business knowledge sharing

There is evident concession in the analysed data that an open-door policy can play a pivotal role in the generation of new ideas that inspire innovation within the firm. An open-door policy encourages relationship building and engagement between management and employees. Sustainable innovation is born from a business environment that supports learning formally or informally. In such a culture, there is a strategic business understanding that knowledge is an invaluable resource. Highlighted in the rich data was that firms need to recognise the possibility of internally harvesting innovative ideas formally or informally.

4.2.3.2 Training

In all its forms and levels, training was attested to be another of the valuable means through which learning and knowledge sharing can be experienced. Training can be mobilised internally or outsourced.

4.2.3.3 Inter-business knowledge sharing

The possibility of knowledge sharing between firms, especially competitors, had mixed views. The fundamental issue hinged on proprietorship and the need to guard competitive advantage. In cases where some exchange of information was taking place, informal or indirect channels were being engaged. Such platforms included industry seminars or webinars, which did not involve a direct business-to-business exchange. However, project-based knowledge sharing was noted to be inevitable. This refers to the need to share knowledge on a collaborated project. Firms working on a project together, with the intention of enhancing their offering to the project product, will collaborate and share their insights or contribution overall.

4.2.3.4 Social media

Social media was also noted to be an informal platform where knowledge is being shared and could be explored further.

4.2.3.5 Mentorship from larger firms

Some SMEs seek engagement with larger companies that are within their value or supply chain for mentorship. In such cases, the larger companies provided some level of informal mentorship and offered opportunities for smaller businesses to engage and interact with them for developmental purposes.

4.2.3.6 Knowledge sharing as advantageous

Besides being cautious about what information to share with competitors, none of the participants spoke ill about knowledge sharing. In fact, some did not mention how they use knowledge to their advantage, another area for further exploration.

4.2.4 Diverse challenges

Another theme drawn from the data is the diversity and complexity of challenges facing SMEs, which in turn directly or indirectly impact their innovation drive. How these SMEs respond to the challenges is critical for their survival. Building a sustainable innovation capacity is supreme to a firm's success. A well-fortified innovative capacity is a fortress to the numerous challenges facing small businesses. The significant issues are highlighted next.

4.2.4.1 Regulatory and legislative barriers

Regulatory and legislative necessities were noted as posing considerable constraint to SMEs. Though necessary for the management of the sector, regulatory requirements were insinuated as usually costly, tedious and time consuming if one has to adhere to these requirements, and thereby impact the firm's rigor.

4.2.4.2 Lack of funding

Accessing funds to support entrepreneurial and innovation activities is another challenge facing the SME sector. With a very narrow chance of securing capital injection to stimulate and maintain cash flow, it is difficult to support innovation necessary to sustain the business. Lack of funding to

capitalise business activities seemed topical. Some indication of absolute rejection to finance their projects by banks and investors was significantly emphasised. In such cases, owners had to personally subsidise their business activities. Much of this difficulty was highlighted as more palpable in the early years of the business, when it needs to mobilise but does not have enough credibility for investors to support its capital base.

4.2.4.3 Unstable and challenging economic environment

The instability of the South African economy was also affirmed to be a culprit in the poor performance of SMEs. Turbulence in the economy makes it difficult for SMEs to make strategic decisions, a major drawback to small firms. The poor performance of the economy creates a greater chance of choking SMEs.

4.2.4.4 Lack of general management skills

In such a stormy economic environment, robust administrative skills among business leaders were said to be lacking. Many firms are said to be sailing through the storms with no skilled and experienced pilots. Poor management skills in financial management, strategic prioritisation, market research and monitoring of product viability were highlighted as posing a huge threat to the innovative capacity of firms. In hindsight, it was noted that regardless of industry, the SMEs sector is devoid of skills exchange.

4.2.4.5 Lack innovation management skills

Another formidable challenge, gained from the accumulated data, is the complete failure by management to manage innovation capacity. Insufficient or poor skill in the management of a firm's capacity to innovate, threatens the organisation's innovation drive. Many SMEs are said to be making poor decisions and failing to prioritise their resources and to determine lower costs of innovating. Successful innovators were inferred as those who seek cost-effective ways of achieving success.

2.4.4.6 Poor marketing and market research

Participants in this research also articulated poor marketing and market research as challenging factors that impact innovation. The observation was

that some SMEs are often able to articulate strong business proposals which may have the potential to fundamentally change how business is done in their industry, catapulting them ahead of their competition. However, they do not do their due diligence to market the ideas for capital support or research the viability of the ideas. Understanding the viability of an innovative idea with potential consumers gives confidence to the business as well as investors.

4.2.4.7 The globalisation challenge

Another setback deduced from the interviewees emanates from the contemporary challenges brought about by globalisation. Data analysis shows that SMEs concede that they are failing to thrive in the complexity of the globalisation challenge. The challenge is even more apparent when a firm competes within spaces thick with cheap products imported from China and/or other markets.

4.2.4.8 The competition challenge

Participants also highlighted that the viability of some SME firms was threatened by bigger organisations. The threat stems from the fact that larger companies seem to have a better footing when it comes to capitalisation both in monetary and other resources. The unstable economic and business environment seems to push investors to be more confident with bigger companies than they are with small firms.

4.2.4.9 Rigidity

An imperative for sustainable innovation is agility. Analysed data shows that firms need to be flexible to harness innovation for success. There was mounted advocacy against rigidity, which by insinuation, is averse to progressive development among SMEs.

4.2.5 The impact of innovation

Innovation was presented to have a positive impact on competitive advantage, though more research is required on this specifically. Participants showed varied aspirations from expanding the portfolio of services to a need to go as far as altering the way business is done.

4.2.5.1 Expansion of product range

Respondents also mentioned that SMEs are pursuing new innovative ideas to expand or alter their product or service range. This they found to be important for attracting new customers as well as attending to the needs of their existing customers.

4.2.5.2 Company growth

Respondents likewise acknowledged that innovation inherently has the capacity to influence a firm's growth and expansion. Successful SMEs are seen to be actively tapping their innovative capacity to support sustainable growth as well as influence their industries.

4.2.5.3 Bottom-line

Successful organisations were described as those engaging their innovative ingenuity to fit their products and services to the needs of their customers. In so doing, they promote customer loyalty as well as increase the client base. That, in turn, must be reflected as a positive impact on the bottom line.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Concluding Remarks

Core to this research was the exploration of factors that impact the innovative capacity of Small and Medium-sized Enterprises in Cape Town. Participants gave their perspectives and views while responding to the research questions. Drawn out of the research data were issues that have a bearing on the innovative capacity of SMEs. In conclusion, the findings discussed here, reflect the expressions of the subjects as drawn from the rich data amassed during the research study:

- The research results indicate a general understanding of innovation and how it impacts business, especially in the context of an SME. There was acknowledgement that innovation is critical for economic development in South Africa. Within the context of their business environment, SMEs in Cape Town described innovation classically as involving the enhancement of offered goods or services.

- Contextually then, innovation is seen as the business process that involves streamlining business processes and seeking to discover solutions to everyday problems that challenge business operations.
- Though pockets of inimitable products and services are noticeable, the greater SME space is not leaning toward radical innovation, nor do they seek to transform their industry space. The picture painted depicts the incremental innovation level, the second level of the three tiers of innovation, as common space for most SMEs. Organisations engaging incremental innovations basically improve certain aspects of the product. The move usually follows the need by the firm to attend to a certain gap in meeting the needs of their customers.
- There is a strong awareness in the SME sector of the role played by innovation in sustaining a business. The SME sector is likewise a valuable force in sustaining the economic development of the country. However, there is not enough financial support being rendered to SMEs to help them fund innovation schemes. Funding issues, whether regarding access to capital injection or guidance on how to stimulate cash flow, is a major obstacle among SMEs. This is a critical challenge as it has direct impact on their ability to manage innovative capacity sustainably. SMEs operating with no solid capital base have harder hurdles to skip as they navigate the currently difficult and competitive terrain. Leading SMEs, regardless of industry, conceded that a sound capital base gives them the muscle to make seamless decisions that bring life to ideas. The ability to access funds when required, is critical for competitive advantage as it provides an upper hand when investing in innovation projects.
- A poor capital base threatens a business in diverse ways. This may directly or indirectly incapacitate the firm's innovation abilities. A firm lacking in a solid financial base is highly likely to hire semi-skilled personnel, produce poor quality products or services and fail to improve. The resultant factor is the stunting of company growth and increased vulnerability. Foreign owned SMEs in South Africa suffer more in this area as they may have less access to funding from the formal banking sector.

- Regulatory and legislative requirements within the SME space sometimes subjects smaller firms to constraint. This is because it is sometimes costly to fulfil the demands of these regulatory obligations. Some legislation is seen to make it difficult to manoeuvre operative decisions easily, making agility an impossibility.
- Poorly skilled human capital at the management or decision-making level was noted as a fatal challenge that can bleed the organisation to death. Businesses need skilled and experienced leaders with the ability to steer the organisation regardless of sociocultural, technological, and economic fluctuations. SME leaders must have the creative genius to harness a culture of innovation within their firms. It is in the context of such a culture that innovation flourishes.
- Poorly planned or executed market research incapacitates the innovative potential of a firm. Having an impeccable idea that is not well researched usually leads to failure, as that impacts on the market entry strategy and on many other factors that pertain to the quality of the product or execution of service. Failing to realise a positive outcome from an outstanding idea often dampens the potential of future attempts, especially where resources are limited.
- Poor administrative skills in the general management of a business was also noted as a cause for concern among SME managers. These pertain to poor planning and management of resources that support innovation. The all-round resources of a business, if improperly managed and appropriated, will cease to help sustain the organisation's growth impetus. Key resources highlighted as fundamental capital for innovation included finances, human resources, material resources, and infrastructure. Deficiency in any of these has the potential to incapacitate the SMEs' drive to innovate sustainably.
- Mixed views were expressed regarding what, when and with whom knowledge should be shared, mainly on the basis of protecting privacy, proprietary rights and competitive edge. However, consensus was shown that firms need to learn from one another's

experiences. A lack of knowledge impacts the impetus of the firm's potential to innovate. Knowledge here basically refers to all facets of business intelligence such as understanding how to leverage technology, product development opportunities, market size, competition, consumer lifestyle and various demographics that help when solving both daily operative and strategic problems.

- Open communications and transparency in the business environment help to create a conducive space for new idea generation. Innovation is stimulated by value adding ideas within the work space.
- Failure to build strong relationships with clients was also noted as a challenging factor to sustainability. Engaged customers are a source of vital data necessary for product or service development. Client-centric products are a product of engagement between the two parties, an innovative firm and its target market.
- The state of the economy at both the domestic and international level was pointed out by participants as an influencing factor of how the business performs. The economic climate influences how decisions are made by stakeholders which also dictates on how resources are allocated, which invariably impacts the innovation wheel of the firm.

Participants lifted innovation high as a key component for success. Many challenging obstacles have been highlighted as impacting the innovative capacity of a firm in the context of SMEs in Cape Town. Reviewed literature does in many ways agree with the topical role innovation plays in the development and sustainability of an SME.

5.2 Recommendations

The recommendations offered here are to help SMEs improve the way in which they manage their innovative capacity. Sustainable business growth is almost always possible when innovation is at the epicentre of how business is done in the firm. The following recommendations are made:

- The Ministry of Small Business Development, which oversees the management of the SME sector in government, should commission more research, consultations and engagement with SMEs to better

understand their challenges and effectively help champion their cause. The pivotal role played by SMEs in stimulating and growing the South African economy is by itself a call for institutional support from government, policy-makers and all stakeholders of the SME sector. There are insurmountable calls from the players in the sector, to rationalise and streamline regulatory frameworks to favour SME productivity.

- Innovation must be intrinsically part of a firm's strategic priority. Companies must not consider innovation as a random activity. Entrepreneurs and SME managers must, from a strategic level, rethink how to manage their innovative capacity closely. Innovation is imperative for success, and in an unstable economic environment, it is necessary to pay closer attention. Management of innovation capacity may incorporate skills evaluation to identify and manage gaps, and strategic control and allocation of resources to ensure sustainability and continuous improvement. This can be realised by ensuring that direct responsibility for evaluating and managing innovative capacity is carried out at the strategic management level. Senior management must take it upon themselves to support and direct innovation initiatives. They must aim to create a culture of innovation within their organisation.
- Senior Management must be proactive and become innovation evangelists. They must open their doors to both subordinates and clients. It is from these sources that new ideas can be harvested. Leaders who strategically advocate for innovation are better positioned to succeed. When management is open to new ideas, a firm becomes more agile. Leadership can support innovation by incentivising new ideas.
- Investing in progressive skills development must be a strategic priority among SMEs. Skilled employees, armed with relevant knowledge, are an asset for sustainable innovation. Mentoring, an open door policy, internal skills development, exchange programmes and affording employees bursaries to further their education, are

examples of ways in which companies can invest in employee skills development.

- From a solid strategic position, SMEs must consider investing in market research before capitalising a project. Undertaking market research ensures sufficient evaluation of the viability of a product or service before resources are lost. Cost-effective innovation activities help sustainability and proper management of the firm’s innovative capacity. A research and development team could be useful in undertaking pilot studies as well as building prototypes whose viability can easily be tested.
- To ensure they keep abreast with trends within their industry, SMEs must capitalise on networking opportunities with their peers. Knowledge exchange with peers as well as creating opportunities to engage with investors, are critical for success. Attending expos or conferences within one’s industry are some ways to keep up with key developments in the industry. The impact of such networks may be critical when galvanising innovative ideas.
- Lastly, SMEs who are struggling to find funding directly from the bank must consider other avenues such as independent investors, merging, licensing or even personal capital injection.

REFERENCES

- Antoncic, B., Antoncic J.A. & Aaltonen H.M. 2016. Marketing self-efficacy and firm creation. *Journal of Small Business and Enterprise Development*, Vol. 23 Issue 1, pp. 90-104.
- Asah, F., Fatoki O.O. & Rungani E. 2015. The Impact of Motivations, Personal Values and Management Skills on the Performance of SMEs in South Africa. *African Journal of Economic and Management Studies*, Vol. 6 Issue 3, pp. 308-322.
- Baregheh, A., Rowley, J. & Sambrook, S. 2009. Towards a multidisciplinary definition of innovation. *Management Decision*, Vol. 47 Issue 8, pp. 1323-1339.
- Braun, V. & Clarke, V. 2006. Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3 (2), pp. 77-101.
- Ceylan, C. & Koc, T. 2007. Factors impacting the innovative capacity in large-scale companies. *Technovation*. 27 (3), pp.105-14.
- Chittithaworn, C., Islam, A. & Yusuf, D.H.M. 2011. Factors Affecting Business Success of Small and Medium Enterprises (SMEs) in Thailand. *Asian Journal of Social Science*, Vol. 7, No. 5, pp. 180.
- Creswell, J. W. 2012. *Qualitative inquiry and research design: Choosing among five approaches*. Sage Publications, Incorporated.
- Davis Tax Committee. 2014. Small and Medium Enterprises: Taxation Considerations, Interim Report; [http://www.gov.za/sites/www.gov.za/files/Small% 20and% 20Medium% 20Enterprises% 20Taxation% 20considerations,% 20interim% 20report_a.pdf](http://www.gov.za/sites/www.gov.za/files/Small%20and%20Medium%20Enterprises%20Taxation%20considerations,%20interim%20report_a.pdf) [Accessed 16 June 2016].
- de Miranda, P. C., Aranha, J.A.S. & Zardo, J. 2009. Creativity: People, environment and culture, the key elements in its understanding and interpretation. *Journal of Science and Public Policy*, Vol 36, pp. 523-535.
- Filippetti, A. 2011. Innovation modes and design as a source of innovation: A firm-level analysis. *European Journal of Innovation Management*, Vol. 14 Issue 1, pp. 5-26.

Giddens, A. & Sutton, P.W. 2014. *Essential Concepts in Sociology*. Polity Press, Cambridge, United Kingdom.

Goktan, A.B. & Miles, G. 2011. Innovation speed and radicalness: Are they inversely related? *Management Decision*, Vol. 49 No. 4, pp. 533-547.

Harris, R., McAdam, R., McCausland, I. & Reid, R. (2013) "Levels of innovation within SMEs in peripheral regions: The role of business improvement initiatives", *Journal of Small Business and Enterprise Development*, Vol. 20 Issue: 1, pp.102-124, <https://doi.org/10.1108/14626001311298439>

Inauen M. & Schenker-Wicki A., 2012. Fostering radical innovations with open innovation. *European Journal of Innovation Management*, Vol. 15 Issue 2 pp. 212-231.

Jasińska-Biliczak A., Kowal J. & Hafner J. 2016. Innovative capacity in small regional enterprises in transition economies: An Exploratory Study in Poland. Conference paper. Twenty-second Americas Conference on Information Systems, San Diego. https://www.researchgate.net/publication/306188719_Innovative_Capacity_in_Small_Regional_Enterprises_in_Transition_Innovative_Capacity_in_Small_Regional_Enterprises_in_Transition_Economies_An_Exploratory_Study_in_Poland [Accessed on 19 Oct 2016].

Jasra, J.M., Khan, M.A., Hunjra, A.I., Rehman, R.A.U. & Azam, R.-I. 2011. Determinants of business success of small and medium enterprises. *International Journal of Business and Social Science*, Vol. 2 No. 20, pp. 274-280.

Jime´nez-Jime´nez, D. & Sanz-Valle, R. 2011. Innovation, organizational learning, and performance. *Journal of Business Research*, Vol. 64, Issue 4, pp. 408-417.

Kaya H. and Erden D. 2008. Firm-specific capabilities and foreign direct investment activities of Turkish manufacturing firms. *Journal of Management Development*, Vol. 27 Issue 7, pp. 761-777.

Khardenyev K. 2009. Russian regional innovative capacity index and its relation to the regional economic growth. research papers. Paper 409: http://opensiuc.lib.siu.edu/gs_rp/409[Accessed 23/10/2016].

Laegreid, P., Roness, P. G. & Verhoest, K. 2011. Explaining the innovative culture and activities of state agencies. *Organization Studies*, 32:10, pp.1321-47.

Marques, C.S. & Ferreira, J. 2009. SME innovative capacity, competitive advantage and performance in a 'traditional' industrial region of Portugal. *Journal of Technology Management & Innovation*, 4(4), pp. 53-68.

Mbonyane, B. & Ladzani, W. 2011. Factors that hinder the growth of small businesses in South African townships. *European Business Review*, Vol. 23 Issue 6 pp. 550-560.

McAdam, M. 2014. The networked incubator: The role and operation of entrepreneurial networking with the university science park Incubator (USI). *International Journal of Entrepreneurship and Innovation*, Vol. 7 No. 2, pp. 87-97.

National Credit Regulator. 2011. Literature Review on Small and Medium Enterprises' Access to Credit and Support in South Africa; http://ncr.org.za/pdfs/Literature%20Review%20on%20SME%20Access%20to%20Credit%20in%20South%20Africa_Final%20Report_NCR_Dec%202011.pdf [Accessed 27 March 2016].

Muldoon, J. 2012. Compound innovation model. <http://johnmuldoon.ie/2012/04/2563/> [Accessed 06 September 2016].

Naudé, W. 2007. Peace, prosperity and pro-growth entrepreneurship, *WIDER discussion Papers, World Institute for Development Economics*. <https://www.wider.unu.edu/sites/default/files/dp2007-02.pdf> [August 2016].

Neely, A., & Hii, J. 2012. *Innovation and Business Performance: A Literature Review*. Cambridge University Press, United Kingdom.

Olsson, A., Wadell, C., Odenrick, P. & Bergendahl, M.N. 2010. An action learning method for increased innovation capability in organizations. *Action Learning: Research & Practice*, Vol. 7 No. 2, pp. 167-179.

Perdomo-Ortiz, J., Gonza' lez-Benito J. & Galende J. 2006. Total Quality Management as a forerunner of Business Innovation Capability.

Department of Business Administration and Management, University of Salamanca, Spain. Elsevier, pp. 1170-1185.

Porter-O'Grady, T. & Malloch, K. 2015. *Quantum Leadership*. Jones & Bartlett Publishers. Burlington, MA.

Razak, R.A. 2012. Entrepreneurial orientation without stress as a 'Tonic' in magnifying the Malaysian SMEs productivity: A theoretical perspective. *International Journal of Academic Research in Business and Social Sciences*, Volume 2 No.4, pp. 163-180.

Saunders, M.N.K., Lewis, P., & Thornhill A. 2009. *Research Methods for Business Students*. 5th Edition. Harlow, England: Financial Times, Prentice Hall.

Saunders, M.N.K., Lewis, P., & Thornhill A. 2012. *Research Methods for Business Students*. 6th Edition. Harlow, England: Financial Times, Prentice Hall.

Saunila, M. 2014. Innovation capability for SME success: Perspectives of financial and operational performance. *Journal of Advances in Management Research*, Vol. 11 Issue 2, pp. 163-175.

Saunila, M. 2016. Performance measurement approach for innovation capability in SMEs. *International Journal of Productivity and Performance Management*, Vol. 65 Issue 2, pp. 162-176.

Scarborough N.M., Wilson D.L., & Zimmerer T.W. 2009. *Effective Small Business Management: An Entrepreneurial Approach*. Pearson Education, Inc., Upper Saddle River, New Jersey 07458.

Seuring, S. & Gold, S. 2012. Conducting content-analysis based literature reviews in supply chain management. *Supply Chain Management: An International Journal*, Vol. 17 Issue 5, pp. 544-555.

SME Growth Index. 2015. SME sustainability and growth should be an obsession for job creation in South Africa; <http://smegrowthindex.co.za/wp-content/uploads/2015/07/Screen-Shot-2015-07-22-at-1.58.52-PM.png> [Accessed 07 March 2016].

Tummons, J. 2014. Using Software for Qualitative Data Analysis: Research outside Paradigmatic Boundaries in Big Data? *Qualitative Approaches to Digital Research*, pp. 155-177.

Urban, B. & Naidoo, R., 2012. Business sustainability: Empirical evidence on operational skills in SMEs in South Africa. *Journal of Small Business and Enterprise Development*, Vol. 19 Issue 1, pp. 146-163.

van Scheers, L. 2010. Challenges of small family groceries shops in South Africa. *World Journal of Entrepreneurship, Management and Sustainable Development*, Vol. 6 Issues 3, pp. 221-231.

VanScoy, A. Evenstad, S.B. 2015. Interpretative phenomenological analysis for LIS Research. *Journal of Documentation*, Vol. 71 Issue 2, pp. 338-357.

Wonglimpiyarat, J. 2015. Challenges of SMEs innovation and entrepreneurial financing. *World Journal of Entrepreneurship, Management and Sustainable Development*, Vol. 11 Issue 4, pp. 295-311.