

# The Importance of Innovation in Micro, Small, and Medium Enterprises (MSMEs) and Achieving Sustainable Economic Development

*Dr. Ishtiyaque Ahmed*

Assistant Professor in Commerce,  
MGV's Arts, Commerce and Science College,  
Malegaon City, Nasik Maharashtra, India

## ABSTRACT

*Micro, small, and medium enterprises (MSMEs) play a critical role in the economic growth and development of any country. These enterprises are often faced with challenges such as limited resources, stiff competition, and market saturation. In this context, innovation has emerged as a crucial tool for MSMEs to differentiate themselves and stay ahead in the market and for achieving sustainable economic development for the nation. **Methodology:** This paper by reviewing the literature, highlights the importance of innovation in MSMEs and its impact on the growth and success of these enterprises. **Findings:** By adopting new technologies and processes, MSMEs can overcome challenges such as limited resources, stiff competition, and market saturation. In today's fast-paced and constantly changing market, innovation has become a critical tool for MSMEs to remain competitive and achieve success. **Implication:** Governments, financial institutions, and other stakeholders must work together to support MSMEs in their pursuit of innovation, helping them to overcome barriers and achieve their full potential in achievement of sustainable economic development and growth of nation. **Originality:** This paper is original work of author and all the sources and references are duly cited.*

**Keywords:** MSME, Innovation, Sustainable Economic Development, Environment

## INTRODUCTION:

MSMEs are considered the backbone of any economy, providing employment opportunities and contributing to the gross domestic product (GDP). These enterprises are often characterized by limited resources and small scale operations, making it challenging for them to compete in the market. In this context, innovation has emerged as a critical tool for MSMEs to overcome these challenges and achieve success. As per the estimates of World Bank by 2030, about 600 million jobs will be required for mopping up increasing workforce at global level. This shows the essence of developing the SMEs at priority basis and the Governments must divest higher efforts and ways for the development of MSMEs. (*World Bank Group, 2021*).

Innovation plays a crucial role in the success and growth of Micro, Small and Medium Enterprises (MSMEs). These businesses are the backbone of many economies, and their success is essential for overall economic development. Innovations can help MSMEs overcome challenges, increase efficiency, and improve their competitiveness in the market. In this article, we will explore the role of innovations in MSMEs and the benefits they bring. Innovation and entrepreneurship are realized as vital foundations and materials of aggressive and strong economies. (*World Bank, n.d.*)

## LITERATURE REVIEW:

### **MSMEs and Sustainable Economic Development:**

India has kept the topic of sustainable economic development on the top among political agendas. It aims for inclusive, sustainable and faster growth. Each year millions of youth joining the labour market, for absorbing the influx of these job aspirants, there is a need of about 120 to 130 million new jobs to be created by the year 2025. In this regard MSMEs are expected to play a vital role and understood as driving force for getting this sustainable

economic development. The MSMEs having about 44 million micro firms and thousands of medium and small sized business firms, putting huge environmental, social and economic effect in the economy and development of the country. (*Programme, 2021*) But, the sector is facing many hurdles especially with regard to applying environmentally sustainable manufacturing processes, competition at international level, efficiency in using materials, water and energy. With the implementation of modernisation and adoption of inclusive, technological and green innovative systems, the MSMEs in India can generate newer economic and employment opportunities and build-up competitiveness lasting for long time. (*GIZ, 2012*)

The MSMEs in India are contributing to exports, increasing industrial production and generating employment. The bringing of innovation in MSMEs is vital for their further development and growth, having central value for creating competitiveness, enhancing growth and having sustainability in relation to varying market conditions. (*GIZ, Programme for Modernisation and Innovation Promotion in Micro, Small and Medium Sized Enterprises in India (MSME INNO)*).

The Micro, Small and Medium-sized Enterprises (MSMEs) sector in India contributes significantly to employment, industrial output, and exports. And bringing in innovation is a key to drive their growth. It is central for sustainability, growth & competitiveness in the context of ever-changing market dynamics.

### **Impact of Innovation on MSMEs:**

Innovation has a significant impact on MSMEs in several ways. Firstly, innovation helps MSMEs to differentiate themselves from their competitors and establish a unique position in the market. Secondly, innovation can help MSMEs to improve their processes and increase efficiency, thereby reducing costs and increasing profitability. Thirdly, innovation can help MSMEs to develop new products and services that meet the changing needs and demands of the market.

*World Development Report 2020 Trading for Development*, noted down that if MSMEs are participating in digital platforms and e-commerce, it makes them to sell services and goods in easy manner and reducing the costs of entering in markets and doing businesses and enhancing MSME productions and profit levels. (*Douglas Pearce, 2022*)

MSMEs in India are at large scale, applying newer innovative information and communication technologies like (IaaS) infrastructure as a Service and (SaaS) Software as a Service. (*CII, October 2011*)

### **Innovation as a Competitive Advantage:**

In today's fast-paced and constantly changing market, innovation has become a crucial tool for MSMEs to remain competitive. By adopting new technologies and processes, MSMEs can create a competitive advantage and increase their market share. For example, MSMEs can use digital technologies to improve their operations, reach new markets, and expand their customer base. This not only helps MSMEs to remain competitive but also increases their chances of success and growth in the long run.

(*Coad, A., Segarra, A., & Teruel, M, 2016*) in their study argued that young Spanish firms got higher benefits out of innovation activity in relation to growth in employment and also other performance indicators. But, some authors like (*Classen, N., Carree, M., Van Gils, A., & Peters, B, 2014*) view differently, they highlighted the important differences in innovation between non-family and family SMEs, in which, as compare to non-family controlled SMEs, family controlled SMEs have more preparedness in investing for innovation but have lesser worker productivity related to process and product innovation.

### **Barriers to Innovation in MSMEs:**

Despite the benefits of innovation, MSMEs often face several barriers that prevent them from adopting new technologies and processes. These barriers include a lack of access to financing, limited resources, and a lack of technological expertise. Additionally, MSMEs may also face cultural and institutional barriers, such as resistance to change and a lack of understanding of the benefits of innovation.

Rising or outbreak of epidemic like Covid-19, exposes SMEs to many types of challenges and putting them at risk. (*Adam, N.A. & Alarifi, G., 2021*)

Rather researchers like (*Guo, H., Yang, Z., Huang, R., & Guo, A., 2020*), found that digital technology use helped SMEs in survival and coping with the impacts of the pandemic like Covid-19. Their findings brought attention towards the importance of information technology in aiding SMEs for coping with the challenges raised by the COVID-19 pandemic crisis.

(*Natalia Strobel & Jan Kratzer, 2017*), found internal and external hurdles in the way for achieving effective innovation for SMEs like negative effect of government bureaucracy, unclear tasks and roles, overloaded capacity, lacking in know-how etc put the negative impact on innovative performance of firms.

### **Challenges in Innovation for MSMEs must include:**

- Limited resources and budget,
- Lack of access to technology and market information,
- Competition from larger enterprises,
- Difficulty in attracting and retaining skilled employees,
- Limited ability to take on risk.

### **Overcoming Challenges:**

MSMEs face numerous challenges, such as limited resources and competition from larger businesses. Innovations can help MSMEs overcome these challenges by improving their products and processes. For example, the adoption of new technologies can help MSMEs increase efficiency and reduce costs, making it easier for them to compete with larger businesses. (*Musaad O AS, et al., 2020*), studied about hurdles and solutions for adopting green practices in the relevance of SMEs in Saudi Arabia, and showed the strategic solution about development of research practices in carrying out green innovation in SMEs is important in removing green innovation hurdles in SMEs.

### **Improved Efficiency:**

Innovations can also help MSMEs improve their efficiency. For example, the use of automation and digital technologies can help streamline business processes and reduce the time and effort required to complete tasks. This increased efficiency can translate into lower costs, higher productivity, and improved competitiveness.

### **Increased Competitiveness:**

Innovations can also help MSMEs increase their competitiveness in the market. By introducing new and improved products and processes, MSMEs can differentiate themselves from their competitors and attract new customers. This increased competitiveness can also lead to higher profits and greater market share.

### **Access to New Markets:**

Innovations can also help MSMEs access new markets. For example, the development of new technologies and products can create new markets and opportunities for MSMEs to sell their goods and services. This increased access to new markets can help MSMEs expand their customer base and grow their business.

### **Other Measures to overcome challenges:**

- Building partnerships with larger companies or institutions to access resources and technology
- Networking with other MSMEs and industry associations to share information and insights
- Focusing on niche markets or products to differentiate from larger competitors
- Investing in employee training and development to build a skilled workforce
- Developing and implementing a strategic plan to prioritize and manage risk.

### **CONCLUSION:**

In conclusion, innovation is crucial for the success and growth of MSMEs. Innovation aids in managing the firms in a sustainable method, having positive effects not only on environmental aspect, but on societal level also by having improvements in local businesses and local communities. (*Al-Hanakta, R., Illés,B., Dunay,A., Abdissa,G., & Abdi Khalife,M., 2021*). By overcoming challenges, improving efficiency, increasing competitiveness, and accessing new markets, innovations can help MSMEs achieve their goals and contribute to overall economic development. By adopting new technologies and processes, MSMEs can overcome challenges such as limited resources, stiff competition, and market saturation. In today's fast-paced and constantly changing market, innovation has become a critical tool for MSMEs to remain competitive and achieve success. Governments, financial institutions, and other stakeholders must work together to support MSMEs in their pursuit of innovation, helping them to overcome barriers and achieve their full potential in achievement of sustainable economic development and growth of nation.

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