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**THE STRATEGIC PROFILE OF INNOVATIVE SMEs:
THE CASE OF ESTABLISHED FIRMS**

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ABSTRACT

Innovativeness can be regarded as one of the major forces for development in an economy. Small and medium enterprises (SMEs) play a remarkable role in generating societal growth in terms of new jobs and revenues, innovations, production networks, etc. SMEs are often the only feasible engines of development, especially in peripheral regions. Moreover, most of the new jobs are created by existing, not by new, SMEs. However, previous studies have focused on the performance of large companies and of new ventures rather than on existing SMEs and on the factors behind their longevity and growth.

The purpose of this study was to identify factors affecting the performance of innovative SMEs. The aim was to provide information that could increase our understanding of the performance of innovative SMEs by investigating the empirical profile of innovative SMEs that holistically describes conditions and circumstances related to their performance. The profile was based on data referring to the characteristics of entrepreneurs and enterprises, their life cycle, the strategic choices made and success factors of the SMEs, and the nature of their environment. Empirical data were collected from 52 innovative established SMEs in Eastern Finland. The sample was part of the larger sample of established SMEs operating in the sectors of manufacturing, services for business, and tourism.

Innovative SMEs operated in growing and very often global markets. The entrepreneurs had prior work experience particularly in planning and R&D. These firms had significant growth

and strong growth aspirations. They strongly emphasized research and development, and had new products with strong growing sales volumes, and many of these products were unique in the market. They had a few big clients, and most of these SMEs exported. These entrepreneurs thought that their firms had succeeded clearly better than their most important competitors, and they were the most satisfied with their firm's performance. This is in line with previous findings showing that pioneer firms or first movers have advantages over their competitors in terms of higher profits and bigger market shares.

Their success was based on their innovativeness. However, the ability to offer good after-sale services, low financing costs, planning, and consistency in decision making were also very important for the success of these firms. In addition, the strong basic values of the firm were important in the success of these firms. This may be indicative of the strong culture of the firms, which has been found to be characteristic of successful firms. Early reaction to problems and openness in problem solving were crucial for their survival when they had faced serious problems.

Identifying the profile of innovative SMEs makes it possible to detect factors associated with their performance. Both entrepreneurs, nascent and acting, and organizations responsible for local SME development can learn from the results of this study. In local and regional development, paying attention to the foundations of performance fosters the preconditions of SME success and could direct development operations at the most critical targets.