

Small business and innovation: a sustainable development fallacy in South Africa

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RESEARCH AIM/OBJECTIVES

- To assess the potential of SMEs in the country to drive the country towards achieving sustainable development objectives through innovation
- To highlight the predatory and anti-competitive behaviours of large business, particularly regarding copying and taking over small business innovations.
- To make a claim that given the current conditions within which SMEs survive in SA, marked by, among others, no protection against large expropriation of SME innovations, the prospects of SMEs to create a path towards sustainable development are dim.

Introduction- an overview

- SMMEs in SA, as in anywhere else , across the world, are expected to be innovative - the survival and capacity growth of a SMEs can be linked to their innovation potential.
- Innovation drives and capacitates entrepreneurial ventures to create market niches and enjoy monopoly profits, grow (Rosenbusch et al., 2011; Hughes & Mina, 2010), establish business relationships with existing, usually large business and attract government support
- However in SA, the capacity of SMEs to survive, recoup innovation rewards, and pursue growth is under threat from large business predatory practices such as preying on SMEs and independent creative innovations.
- The loss of SMEs innovations through large business predatory practices has remained unaccounted for, both as an operational challenge and to the extent, such practices threaten the survival of small business, the growth of the small business economy, and the contribution of small business to achieving sustainable economic development in the country.

Case study Facts

- Ubuntu Baba vs Woolworths: designer baby carriers' Case Facts:
- According to various online media, reports (see Omarjee, 2019; Njilo, 2019; Shannon, 2019) the retail giant copied Ubuntu Baba's baby carrier design, had their own supplies manufactured in China which gave them the advantage to sell the counterfeit products in South Africa. Shannon (2019) reports Woolworths tracked the SMEs product design process by purchasing Ubuntu Baba Stage 1 and 2 between June and September 2017. At none of these stages did the retail giant reveal the purpose of the purchase or engage the entrepreneur about potential collaboration in the manufacture and marketing of the products.

What does the Case study impute?

- In SA, the capacity of SMEs to survive, recoup innovation rewards, and pursue growth is under threat from the deliberate and strategic predatory practices such as preying on small business and independent creative innovations in SA. Yes at the moment we do not know how prevalent this behaviour is? Why?
- There is a presumption in policy and business discourse that large businesses are in a position, are willing and have positive attitude towards the survival of SMEs. This is not always the case.
- The case study uses supports this assertion. Persuasively the ongoing Please Call Me innovation (at Vodacom) by an individual innovator assists to shed light on negative attitude of large business towards SMMEs and individual innovators creations.
- The loss of small business innovations through large business predatory practices has remained unaccounted for, both as an operational challenge and to the extent, such practices threaten the survival of small business, the growth of the small business economy, and the contribution of small business to achieving sustainable economic development in the country.

Why be concerned? Evidence

- Small business survival hinges on their ability to innovate, but more so their ability to recoup the proceeds of their innovations.
- Studies assert innovation protection is correlated with firm longevity (Mann & Sager, 2007)
- Brant and Lohse (2013:5), it is not enough for a firm to create something new and useful, it must succeed in appropriating the value of its innovation:- question to policy makers- how do you facilitate small business appropriation of SME innovations?
- Expropriating value of innovation is what is challenge in SA: If SMEs cannot expropriate value they cannot grow, and lack of growth translate into low job creation
- As the Woolworth case indicates: SME innovations are unprotected and large business ride on their size to expropriate SME innovations.
- Also low level of SME patenting explains why local SMEs are also vulnerable
- SMEs may innovate, they lack financial resources to make their creative ideas mature into real innovation output- in SA lack of finance is the one of the acute reason that define the 75% death rate of SMEs. Thus supposed SMEs innovate, few have the capacity to add value in tem such they can stimulate economic growth.

Further evidence

- MacGregor and Fontrodona, (2011) reveal, although many SMEs believe innovation is key for them to remain competitive, they often exhibit high risk perception towards taking initiatives, leaving them not proactive to innovation- .
- Corollary evidence further hint South Africa has a low entrepreneurship culture (Herrington et al., 2008), survivalist enterprises are more creative but lack resources to commercialise their ideas and government strategies are misaligned to the specific needs of SMEs.
- Other studies find SMEs are undersupported by large business (Timm, 2012; SBI 2017) in so far as collaborative innovations are concerned.
- In SA policy support for SMEs is biased towards building operational capacity through providing finance, entrepreneurship training among other interventions. Thus it could be argued, in South Africa innovation protection is not a key area of government programs to grow SMEs sector-

Factors that define SME innovation vulnerability in SA-

- large business anti-competitive – taking over innovations
- SME in the country have not yet been accorded and gained recognition and status comparable to large businesses- are is no SME representation in high government policy structures- for example [economic] Planning Commission (Spicer, 2016).
- Buthelezi, Mtani and Mncube (2018) –oligopolistic barriers for SMEs in some industries. Possibly copying small business innovations may be construed as another sector defensive strategy by these large firms to prevent the rise of SME competition.
- State of patent protection policy in the country not helpful to SMEs.
- Among other negative elements it has: rudimentary enforcement of the intellectual property laws in some areas; propensity to encourage registration of superfluous patent; severe administrative and judicial backlogs; cumbersomeness of the of the design law to innovators (Teljeur, 2003)
- SMEs do underutilize available the mechanisms of protection and appropriation of intellectual property - high costs of protection and execution and the lack of awareness of the importance and functioning of means of protection (Lima & dos Santos, 2018).

Global evidence on large business innovation threat-

- United States -big high-tech firms such as Cisco, Intel, IBM, Microsoft and HP have turned to a business technique called “efficient infringement,” where they steal patented technology based on calculated risk of getting caught, tried in court and being forced to pay damages and penalties (see Pat Choate, Patent Theft as a Business Strategy, HuffPost, 2011)
- United Kingdom- “independent inventors say their efforts are being undermined by large companies willing to steal intellectual property rather than license it (see Tyler, 2012).
- Hendy (2016), reporting on Australian SME experiences, also states new product innovations are being forged by the large business despite having confidentiality agreements, design restrictions and patents in place.

Conclusions

- SMEs may innovate, but the support environment for them to appropriate returns from such innovations is lacking-
- Large business are not only positive partners to be with, they are also a risk factor when it comes to innovation.
- Innovation is good, but without regulatory protection of SME inventions, it does not provide a sound basis on which SME contributions to sustainable development can be justified in SA.
- Other questions arise in this study: does SA really need to worry about innovation potential or be more concerned about making sure SMEs be able to survive? -75% failure rate within 3 years of operation. – innovation is a byproduct of capacity growth-funds for R&D large business.
- **Point to ponder:** isn't growing the size of the SME sector a more viable alternative to sustainable development than focus on innovation potential? – case of US SMEs- they are coy to innovate, but they drive the economy?
- For example-Small Business Institute (2019) claims there are only a quarter of a million SMEs,
- Other literature (SEDA, 2018:2; SBP Alert, 2014) posit estimates of between 1.2 million and 6 million SMEs.

Policy Implications

- Policy developments should recognise both positive and negative of large business as an innovation partner with SMEs.
- There is need for innovation laws that are simple, accessible and linked to who SMEs are. A blanket innovation policy framework does not help SMEs, in that it is cumbersome, inaccessible and cost effective.
- Policy redirection, not only to support operational efficiency in SMEs but also to safeguard their innovations and support their value addition processes.