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Financial Innovation: The trend-changing facet of SME Competitiveness.

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Abstract: In recent times, the hype of research in firm competitiveness in SMEs is increasing. There exist infinite numbers of study which talks about how to improve SME competitiveness. But there is not any concrete model that explains how to implement the competitiveness theory into the practice. Many Indian SMEs are unorganized for many years, though they perform exceptionally well without any strategy implementation or applying some business models. This article aims to find the actual factor which affects SME competitiveness, it's neither a model nor a theory, but it's a framework that can guide SME managers to focus on a particular facet of firm performance. After having in-depth discussions and surveys with SME owners/managers, this article proposes the role of certain elements of a business activity, which makes their SME "A competitive SME." Financial innovation can be practically implemented into the transactions of SME, which eventually aids SMEs to be more competitive compare to their competitors.

Keywords: Financial Innovation, FFF framework, SME Competitiveness

I. Introduction

Competitiveness concept was rooted in the times of fifthteenth -seventeenth centuries, where the classic "theory of merchants" was born. That theory got reconstructed as a modern theory by economists like Paul Krugman and Michel porter. Former gave an outstanding understanding of firm level competitiveness, and latter gave exceptional insights about the national, cluster and industrial competitiveness. There has been a lot of progress in the research of competitiveness since then. There are 36 million MSMEs in India, and its quite impossible to survey these MSMEs. So we targeted only one state based MSMEs to find out what do they understand by the term competitiveness, do they genuinely follow any business models or theory to run the business. After doing thorough interviews and surveys with young owners of 81 SMEs, we made a framework that is not based on any previous models or theories but an outcome of those discussions and surveys.

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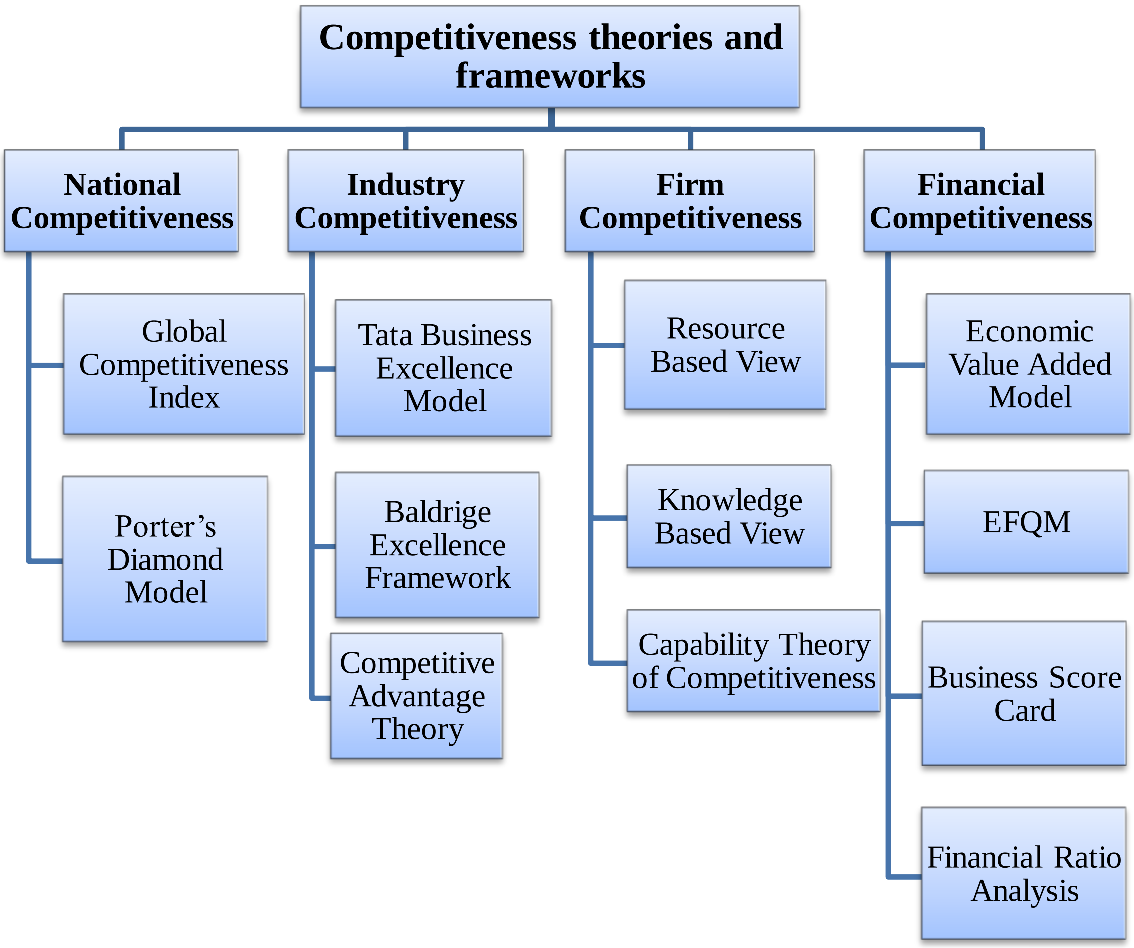

The objectives of this article are to emphasis on "How to" part of being a competitive SME. Authors wanted to know how SMEs become competitive and exceptionally perform well within the unstructured SME sector of the economy. Various literature and theories were reviewed as part of literature before conducting surveys and discussions. Most of the SMEs reviewed don't adopt any business model or theory to perform their tasks.

II. Related Studies

Theoretical understanding is very much essential to build a proper base for research; this article asserts in creating the base for the identification of variables and application of various models and theories related to SME's financial competitiveness. The theoretical framework consists of key concepts of firm competitiveness and factors found contributing to competitiveness belong to multiple units of analysis of competitive advantage. It has been observed that variables contributing to overall competitiveness belong to multiple components of competitive advantage, i.e., Nation competitiveness, Industrial competitiveness, Firm Competitiveness, and lastly, individual management process competitiveness. Below charts shows different models and theory of competitiveness. We are not here to elaborate on each mentioned model written in the above diagram. But it can give a rough idea to the SME Managers regarding different models that exist and have a positive effect on the performance and competitiveness of their firms. A total of 13 models and theories were analysed by us before starting the actual research process. Below tables shows the variables extracted after reviewing all the above mentioned theories-

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Component	Relevant factors
Firm Competitiveness	Firm's Capability, Knowledge management, Firm's Adaptability, Financial Strategy, Profitability, Financial Growth, Innovation and Forecasting, Profitability, Financial Performance, Flexibility, Internal Business Process

A debate on the concept of competitiveness has been going on from the several decades from the 1980s when the roots of competitive advantage theory grown in the business and management field. Still, the debate has not been finished, and a clear definition and implication of competitiveness haven‘t been concluded. In accordance with standardized competitiveness defined in the OECD (The Organisation for Economic Co-operation and Development)‘s documents, — "Competitiveness is the capability of companies, industries, regions, nations and supranational regions to create a relatively high income factor and relatively high employment levels on a sustainable basis, while permanently being exposed to international competition." **(OECD 1994).** Firm Level Competitiveness can be defined as "the ability of the firm to design, produce and market products superior to offered by competitors, considering the price and non-price qualities" **(D‘Cruz 1992).** The below tables explains various theoretical definitions of factors affecting firm competitiveness.

Attributes	Summary of findings
Financial factors affecting a firm's Competitiveness	Amongst the above literature, "competitiveness of SME" has been a significant parameter that can be affected by financial knowledge or literacy, financial innovation, financial strategy, financial capability, and financial flexibility.
Knowledge and competitiveness	Almost all research related to competitiveness proves a strong relationship between knowledge and competitiveness. Higher knowledge of respective fielf leads to better firm performance and hence, competitiveness.
Innovation and competitiveness	The researched literature suggested that innovation in whether in R&D activities or non R&D activities helps to create a strong competitive advantage. This helps in reducing the overall cost and makes the firm financially capable enough to compete in the market.

III. Proposed Model of firm competitiveness:

After conducting surveys and discussions with 81 young Indian SME holders and running factor analysis on 51 questions, the following framework has emerged and the authors have named it "five financial facets framework" – FFF framework. This framework is all about how an SME can achieve competitiveness by using these facets. It is very important to have solid financial structure and strong financial decision power to face the competition. The factors like the financial capability of a firm, having proper financial knowledge, Having financial flexibility, applying financial strategies and adopting financial innovation are very crucial to achieve SME competitiveness. But the discussions revealed that financial innovation is something that is most important for a manager to adopt. We will be

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discussing the modes of financial innovation in the rest of this chapter, as it is being found the most important facet to achieve better competitiveness.

Relationships within extracted financial facets and SME Competitiveness (FFF Framework)

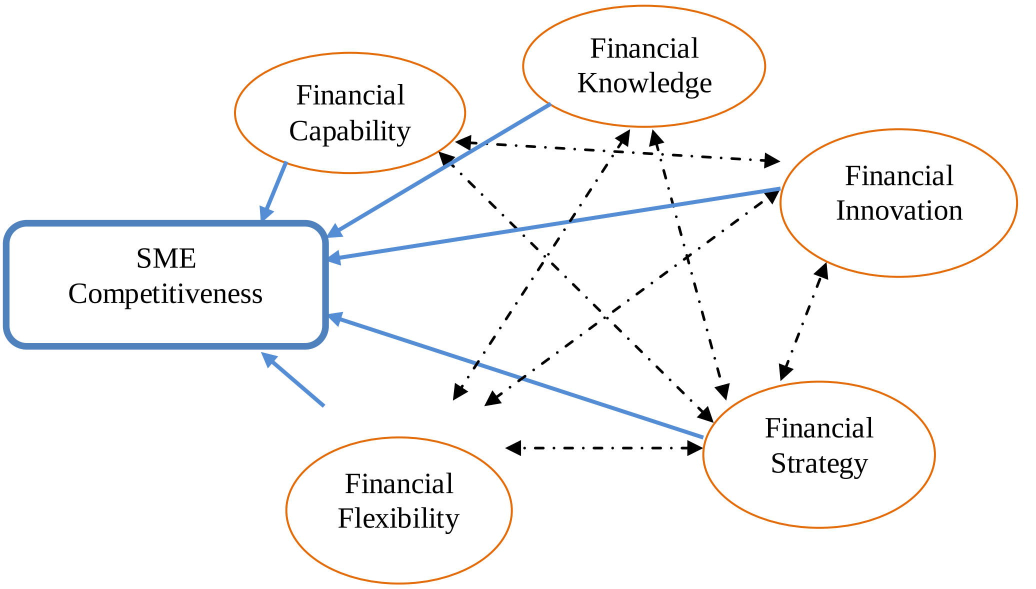
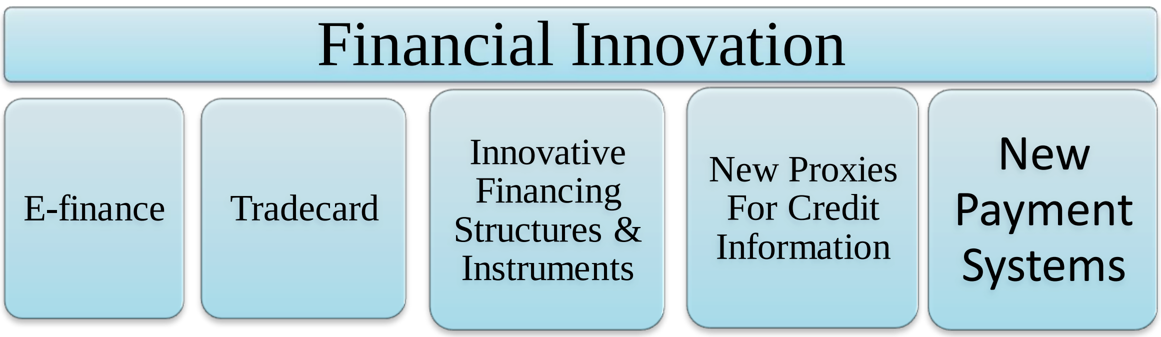


Fig II The Five Financial Facets framework of SME Competitiveness (FFF Framework)

IV. Financial Innovation- A future of firm competitiveness

The financial innovation is not a new trend, as they have been supplementary to the technological innovations from many years (Michalopoulos, Leaven and Levine, 2009, p. 2-5). It being said that and technical innovations are bound together, and they evolve together over time. On the one side, the financial innovation provides a method to finance innovative technological tasks when traditional sources of funds which are unavailable due to high investment risk. And on the other hand, the technological and economic development resulting in the higher convolutions of business practices and new types of risk forces the financial system and financial markets to adapt to the changes.



This concludes that financial innovations, technological and economic development would slow down and the wealth of nations would be lower.

As can be seen in the above figure, above are the various ways of how financial innovation can be adopted and tested to achieve competitiveness in SMEs. E-finance is a way of handling all financial transactions of the company electronically and internet based. This practice has become very common in young SMEs, but in India, there are still many SMEs who are not flexible enough to adapt to this new financing. E-finance includes transactions like – internet banking, internet payments, mobile banking, e- brokerage, e-insurance, and other efinance services. Visa, MasterCard, SWIFT, Identrus**,** PayPal are few of the examples which lead online trade financial transactions all over the world. TradeCard focuses on what is often considered a critical bottleneck in international trade transactions: lack of an inexpensive and efficient system for cross border trade payment settlement. Supply chain finance is part of innovative financing structures and instruments. This involves a relationship between finance contributors and a large corporation under which the financier agrees to advance short-term funding against invoices issued by the large company's suppliers once these have been formally approved for payment. New Proxies for credit information is a system that allows building a predictive model for assessing credit risk among its pool of potential borrowers. Similar strategies are being pursued in the US and elsewhere by lenders that harvest user data from sources such as eBay, Amazon, PayPal, and UPS in order to build similarly predictive models. Many of the most striking new ways of channelling finance to SMEs are emerging as a result of the growth of new electronic payments systems. Electronic wallets are totally a game changer when it comes to new payment systems. Google-Pay, BHIM, PAytM are examples of this. Young SME holders strongly believe in adopting these financial innovation techniques in their transactions, which make them financial competitive.

V. Conclusion

The purpose of this article is to draw the attention of SME holders on how to be competitive using various financial facets like financial capability, financial flexibility, financial strategy, financial knowledge, and financial innovation. Amongst this, what actually easy to implement is being financial innovative. Usin various financial innovative techniques can really help SME owners to run their business smooth and helps SMEs to be competitive.

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