**Innovation for the Bottom of Economic Pyramid: The Role of Manufacturing SMEs in Sri Lanka**

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**Abstract**

Small and medium-sized enterprises (SMEs) are important players in the national innovation system of any country with its degree of influence depending on the policy support by the governments (Frietsch, 2012). The role of SMEs in poor economies is very crucial as they are directly dealing with economically weak customers and employees from poor communities. As in many other countries, SMEs in Sri Lanka employ a large number of people and contribute considerably to the GDP. However, they show lower innovation activities than larger enterprises and are less attractive in drawing the attention in the face of global competition. Further, their share of R&D expenditure and R&D engagement is low on average and often R&D and innovation processes are not conducted formally and continuously (Stokes, 2003).

This study attempted to determine the innovative behavior in SMEs in Sri Lanka where National Innovation System (NIS) remains weak and fragmented, characterized by poor technology catching-up abilities. Empirical evidence has been drawn from data gathered through a survey based on a survey instrument specifically designed for developing countries. The sample, comprising 140 manufacturing SMEs in the Western province of Sri Lanka, is drawn using a stratified random sampling method from the statistical data base of the National Enterprise Survey conducted by Department of Census and Statistics in 2003 and updated annually. The survey was backed with focus group discussions with 15 selected owners of SMEs. The collected data was analyzed descriptively with frequencies and percentages to draw policy implications that engender innovativeness of the SMEs. It was found that SMEs are moderately engaged in product/service and process innovations and improvements but almost all recorded innovations as being new to the firm. Further they work in isolation and many firms are inward oriented with limited linkages and information channels. Hence, the need to promote the SMEs through closer links and supportive infrastructure with the active involvement of government institutions, research and technical support centers and the universities was recognized. Further, foreign trade and foreign employment policies of the country should be revised for the purpose of supporting SMEs in the country. The study will extend in the future to investigate the roles of those parties that promote innovations in the SMEs enabling poor communities to enjoy the benefits.

**Key Words:** Innovation, SMEs, Sri Lanka, Resource Constrained