

IDENTIFICATION OF INNOVATION CAPABILITIES FOR MICRO AND SMALL ENTERPRISES IN MORELOS, MEXICO

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ABSTRACT

Innovation is usually associated with the use of new technology or with important research and development departments, leaving micro and small enterprises (MSE) lacking. Our research shows that MSE can find success by doing things differently, better, quicker and more cost efficiently. Unfortunately, the innovation level of MSEs is hard to evaluate because most innovation models have been developed for medium and large enterprises. This paper's main objective is to determine indicators that can efficiently measure innovation in MSE in Morelos, Mexico dedicated to service and commerce activities. Three innovation models were analyzed: "Innovating for the next three billion" report by Ernst & Young, "Measurement of basic processes and innovation enabling" and "The Innovation Kite Model". From this analysis, and after the identification of the characteristics and needs presented by the Mexican commerce and service MSE, we established 12 innovation capabilities to measure innovation levels.

JEL: M10, M16

KEYWORDS: Innovation, Micro and Small Enterprises, Innovation Capabilities

INTRODUCTION

Innovation is an important topic for business. Innovation is a way enterprises manage challenges in developing new products and services, as well as to improve processes and management to offer added value to their customers. Innovation has been widely accepted as a driving force in creating economic value since Schumpeter defined it in 1934. Being effective at innovation is about creating knowledge and generating a competitive advantage.

Enterprises have good opportunities to make improvements. They must pay attention to what they are doing and what customers are telling them about their products and services. Customers know how they want products and services to be better. The enterprises' job is to do research and ask customers their desires. Employees are also an important source of information. Creative ideas can be conceived by anyone in the enterprise. But, these suggestions must be taken seriously and some selected for implementation (Morris, 2013).

To profit from innovation, enterprises make great efforts to build their innovation capability. Measuring innovation capabilities is complex. Multi-dimensional difficulties are shown in the innovation process. Innovation involves a broad and dynamic spectrum of activities related with markets, new products, redesigning, production and others. Successful innovation comes from the integration of a set of capabilities, rather than a single type of capability (Zhang, Garrett-Jones, & Ricky, 2013).

To manage the innovation capabilities the first step is to be able to measure them. Therefore, the creation of metrics or indicators to measure innovation in companies is crucial to determine the current condition of the company and define a strategy for improvement (Galvez, Camargo, Julio, & Morel, 2013).

Usually, the methodology and tools available to evaluate innovation are not sufficient. Most are based on the design and use of science and technology. Descriptive methods focused on processes or innovation resulting in research done at a country level, does not show the perspective from enterprises' point of view. (Moreno Rojas & García Carrillo, 2014)

The innovation level for micro and small enterprises (MSE) of commerce and services sectors is difficult to evaluate. The evaluation criteria can be applied to bigger enterprises which have more resources and activities related with research and development, high levels of technology and other factors that MSE cannot easily obtain. Adams, Bessant, and Phelps 2006 show evidence that the best way to measure innovation capabilities in MSE is using a multi-criteria approach. (Moreno Rojas & García Carrillo, 2014)

Innovation is easy when enterprises have enough resources. But when resources are limited, things get difficult. Micro and small enterprises commonly face resource limitations. Why are Micro and small enterprises not able to innovate? Answering this question is the main reason for the present research. Innovative capabilities that can be applied to MSE are not defined. For this reason evaluation of innovation for the characteristics and needs of this specific sector is difficult.

This study begins with a discussion of the literature defining commerce and services of MSEs in the Morelos, Mexico context. Then, innovation definitions and the relation of MSE and innovation are explained. We also discuss types of innovation. The paper is based in three innovation models: a) "Innovating for the next three billion" report by Ernst & Young, b) Measurement of basic processes and innovation enabling and c) The Innovation Kite Model. These were used to identify feasible innovation capabilities to be assessed in micro and small enterprises. Identification and explanation of the innovation capabilities as they related to micro and small enterprises is the goal of this paper.

LITERATURE REVIEW

Commerce and Services Micro and Small Enterprises in Morelos, Mexico.

Innovation capabilities are evaluated in a micro and small enterprises in the state of Morelos, Mexico. Morelos, officially named "Free and Sovereign State of Morelos," is one of 31 states which, with the Federal District, comprise the 32 Federal Entities of Mexico. It is divided in 33 municipalities and its capital city is Cuernavaca. It is located in South-Central Mexico. It is bordered by the states of México to the north-east and north-west, Puebla to the east and Guerrero to the southwest. Mexico City is situated north of Morelos. This state is the second-smallest state in the nation.

The importance of small business as an engine of economic growth has been widely recognized (Valladares, De Vasconcellos, & Di Serio, 2014). Market-based services (that is, excluding those typically provided by the public sector, such as education, health care, and government) account for 50% of the total and have become the main driver of productivity and economic growth in OECD countries. Services have also emerged as a main source of job creation in OECD countries, often compensating for job losses in manufacturing (Sheehan, 2006).

Small and medium enterprises in Mexico represent an economic force for the country. According to information from the Instituto Nacional de Estadística e Informática (INEGI), a national organism responsible of statistics, in Mexico there exist approximately 4.015 million entrepreneurial units, of which 99.8% are micro, small and medium enterprises that generate 52% of GDP (Gross Domestic Product) and

72% of employment (ProMéxico, 2014). Commerce, transportation, services and tourism in Morelos accounts for 59% of the state's GDP and employs just over 50% of the working population. Growth of the commerce sector is due to urbanization and the growth of tourism (INAFED, 2010). This confirms the findings of Shiatarella (1999), who concluded that small firms have passed big firms in the creation of new employment (Gómez Ortiz, 2008).

We define services as the set of activities and tasks oriented towards the clients' satisfaction once their needs and expectations are identified. Services are intangible and their value varies from client to client depending on their personal experiences and needs (Sánchez Méndez & Bravo Alcántara, 2011). Commerce enterprises are dedicated to purchasing and selling finished products without adding value to them. They offer the service of distributing finished products to customers.

Customer satisfaction defines the quality degree of how a service is delivered. This concept is changing due to the fact that quality depends on the client. Only through a comparison between the needs of costumers against their satisfaction, allows enterprises to define bad or good quality (González, 2014). The purpose of innovation in service and commerce enterprises is to have a positive impact on costumers' satisfaction. Services are uninteresting with respect to innovation, which may have caused them to attract relatively little attention from scholars of innovation (Tether, 2005). One reason is that due to its intangibility of service outputs, service innovations can be invisible and therefore difficult to identify (Prajogo, McDermott, & McDermott, 2013).

With the information provided by ProMéxico, some advantages of MSEs in Mexico can be distinguished. They are a source of development for the country. Their recently born organizational structure is flexible so modifications and adaptations can be easily made to their processes. They have growing opportunities. They represent a large percentage of the economically active population because SME generates a large amount of jobs. Mexican MSEs contribute to local and regional development. The owners are frequently the enterprise managers, so they are aware of the needs of the business. Finally, MSEs can easily assimilate and adopt new technologies (ProMéxico, 2014).

On the other hand, some disadvantages are related with administration issues. Frequently, MSEs do not reinvest profits to upgrade their equipment and production techniques. The lack of an efficient organization results in a shortfall of sales and providing inefficient service to customers. MSEs commonly do not know how to set prices for their products or services because they do not distinguish all the costs involved, they lack of inventories control, they have taxation problems and have other problems. These problems can be translated into affectations when these enterprises intend to request financing from government of financial instances (ProMéxico, 2014).

What is Innovation?

Innovation has become an imperative for enterprises of any kind and size. A changing environment in all aspects lead enterprises to search for new ways to offer their products and services such as innovating in services and products already offered, processes and management improvements, trying to access new markets. They wish to follow a path to create value and keep a competitive advantage.

Innovating is essential to moving forward. It is not enough to innovate once. Implemented innovations frequently are imitated by others transforming the innovations into standardized practices, methods, or products. For this reason enterprises must continuously innovate (González Candía, García Coliñanco, Lucero Caro, & Romero Hernández, 2014).

Innovation enables existing advantages to be maintained and new advantages to be created. Innovation helps making today's products and services better. This often leads to continuous or incremental innovation.

Incremental innovation is what most enterprises do to match progress made by competitors and sustain a position in the market (Morris, 2013).

Decreasing production costs, rapid changes in technology, reduction of commerce limitations as well as competition growth, are factors that force enterprises to improve their competitiveness and productivity, without leaving aside the impact in the quality of the product or service that the business is offering to customers. Innovation is a necessary and unavoidable strategy when objectives, goals, directions are being formulated to manage organizations in an effective manner (González, 2014). Innovation must have a strategic purpose making implementation easier and opens the possibility to take advantages of new opportunities.

Innovation has been defined in different ways. Most often, innovation is related with something new and also with something that needs to be useful. The Organization for Economic Co-operation and Development (OECD) in the Oslo Manual, defines innovation as “the implementation of a new or significantly improved product (good or service) or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations”. (Organization for Economic Co-operation and Development, 2005)

According to Schumpeter, innovation goes beyond technology. Schumpeter proposes the following components: a) The introduction of a new product into a market, b) The introduction of a new production method, c) The opening of a new market in a different country, even though if that markets already exists in another country, d) Find a new source of raw material or semi elaborated products, without consideration if that source exists or has to be created and e) Implementation of a new structure in a certain market (Escorsa Castells & Valls Pasola, 2003).

Other studies have attempted to improve on the Schumpeterian approach opening a wider perspective. Processes of innovation are not limited to R+D activities and patents. Other aspects are considered as well including: the role of institutions, business culture and behavior, collaborative relationships among organizations, sources of innovation and the training and learning process (Cáceres, Guzmán, & Rekowski, 2011).

Innovation, as a system, emphasizes interactions that take place among involved agents and the knowledge these interactions produce. Innovation seen as a process tackles the characteristics of how innovation happens and the inherent capabilities to get the required actions done (Moreno Rojas & García Carrillo, 2014).

Creativity is related to innovation. The creativity concept includes processes about idea generation. Innovation includes processes about practical appliance and the exploitation of those ideas. Creativity is present in MSE's. Many of these enterprises have their origin in a brilliant idea, and the lack of resources often makes entrepreneurs be creative. What these enterprises have to develop is the ability to transform ideas into a product or service that can be the source of profits (Asociación de la Industria Navarra, 2008). The generation of added value is produced through something new which is transformed or incorporated in products, services, processes, systems, structures and brands into something that the customer is willing to pay for. Then, innovation is seen as the sum of invention and commercialization (B+I Strategy, 2007).

The role of the enterprise owner or manager is highly important for innovation. For Peter Drucker quoted in (Gómez Ortiz, 2008), a leader has to be a leader for change. The leader has to show willingness and the ability to apply changes, make new and different things, and design policies to turn the present into future. The change leader tests every product, service, process, market, distribution channel, customer and final usage to see if they might be innovated (Gómez Ortiz, 2008).

Finding innovation sources for all kinds of enterprises is important. The most common sources of innovation opportunities in organizations are processes and customers. Opportunities of innovation based on the needs of customers can generate more value for the organization. These help to launch new products or services. An enterprise that fulfills the needs of customers can achieve better profitability. In processes it is also an opportunity to improve how things are done, save resources and gain in quality and performance (Bermúdez García, 2010).

Innovation definitions have in common the element of being successful in the market. If the new products, procedures or services are not accepted by costumers, innovation does not happen. Innovation implies competitiveness. Innovations become an attribute to generate value. Innovation's goal is the improvement of the results of an organization by obtaining competitive advantages. Innovation has been described as "the engine that drives revenue growth" and is considered the basis for organizational survival (Galvez, Camargo, Julio, & Morel, 2013). The challenge for all sizes of enterprises is to identify innovation capabilities and work on their development.

MSE and Innovation

Innovation by itself creates value and pushes societies forward through growth and welfare. There are no established formulas for the innovation process. But, it is useful to consider certain principles to generate innovations in organizations including: stimulate disruptive thinking, acting with the knowledge of innovation's sources, boost technological vigilance, solve problems using an interdisciplinary approach, generate spin-off and creating networks for association (González Candía, García Coliñanco, Lucero Caro, & Romero Hernández, 2014).

Innovation requires policies, processes and tools to allow creativity in both, individuals and organizations. It contributes to the corporative strategy through the creation of new products, services, and business models that add value to enterprises. Innovation, strongly related with a business strategy, has to be focused on the customer (González Candía, García Coliñanco, Lucero Caro, & Romero Hernández, 2014). Developing quality relationships with customers can be a driver to innovation processes. Proximity and knowledge of the customer are key factors for innovation in MSE (Armenteros Acosta, Medina Elizondo, Ballesteros Mirón, & Molina Morejón, 2011). In fact, informal innovation strategies, can be transformed into formal strategies by providing a definition of the capabilities in which the MSE can innovate. MSEs relate with external instances such as their customers, other enterprises and the government, all of which can be innovation sources.

MSEs have advantages and disadvantages in innovation. They are flexible and focused on particular products or services, and in contrast do not have enough capacity to manage the whole innovation process. These enterprises relate with the external environment, other enterprises, organizations, government and partners. The involvement of customers is relevant particularly in modifications of products and market research. Despite, being flexible and adaptable, MSEs have scarce resources and lack capabilities of searching what is needed to develop a culture of continuous innovation. MSEs must focus on developing their capabilities and reconfiguring them to deal with the changing and challenging business environment (Grimaldi, Quinto, & Rippa, 2013).

Innovation measurement in enterprises must be done according to their own characteristics. There are clear obstacles faced by MSE's when innovation looks forward to the generation and patenting of new processes and products through investment in infrastructure, high fixed costs, specialized knowledge and other factors. Although these obstacles reduce the options for these enterprises to generate new knowledge there remains, a universe of gradual improvements and tacit knowledge that could be used by these enterprises to reach new levels of competitiveness and productivity enabling them to grow and develop. Hughes (2001) in (Galvez, Camargo, Julio, & Morel, 2013) concludes that management abilities are more important than

financial factors for growth based in innovation (Galvez, Camargo, Julio, & Morel, 2013). MSE have fewer management resources compared with large companies (Mizuno, 2014).

Tejada and Moreno explain there are determinant factors of innovation in service MSE's including size. The larger the enterprise, the more intensive the firm's innovation activities become. The existence of any type of co-operative arrangement encourages innovation activities. Higher dependency on external financial resources implies greater obstacles to innovation activities. Higher levels of dependency on providers implies less dynamic innovation processes (Tejada & Moreno, 2013).

According to Dini and Stumpo (2011), there is a need to focus on three elements that should be considered in small and medium enterprises (SME) innovation policy design and well as research projects. These factors are: a) SME adopt innovation strategies (informal ones) different from the ones developed by big enterprises. The efficiency of these strategies depends on the competitive context in which they operate. b) SME capacity to efficiently relate with the economic and institutional environment affects significantly their informal innovation strategies and c) SME access to more formal innovation processes may be facilitated by promoting their links to other economic organizations that do not experiment their scale limitations (Dini & Stumpo, 2011). Cormican and O'sullgvan quoted in (Çetinkaya Bozkurt & Kalkan, 2014) emphasize the importance of having a strategy for innovation. It is not possible to have a correct innovation management, without an effective strategy. (Çetinkaya Bozkurt & Kalkan, 2014)

Innovation-oriented strategies contribute to ensure the protection and sustainability of presence and increasing competitiveness for MSEs. The flexibility of MSEs helps to adapt themselves easily to innovation strategies concerning technology, production methods and marketing (Çetinkaya Bozkurt & Kalkan, 2014). Nevertheless, barriers for innovation are present, especially for this type of enterprises, where the lack of all kind of resources is a common denominator.

Forsman & Serdal, 2011 recommends small enterprises consider the type of innovation that can improve their present and future performance, the time it takes to achieve better performance by innovating and the economic situation needed to be successful. Both, innovation types and innovation diversity should receive special attention. (Forsman & Serdal, 2011)

Innovation is not an easy task. As Hauser (2006) explains in (Klingebiel & Rammer, 2014) only a fraction of innovation efforts are successful. It is difficult to predict key determinants of innovation success. Commercial uncertainty shortens the period within which managers can see opportunities to create innovation. Customer preferences, technological standards and competitive scenarios are obstacles for MSEs. Resources for innovation are sometimes allocated too late to implement an innovation project.

For micro and small enterprises, the implementation of innovation strategies is not easy. The problem examined in this research is the accurate identification of the capabilities that these enterprises can handle.

Types of Innovation

According to Valladares, De Vasconcellos, & Di Serio (2014) the elements that determine an enterprises' innovation in products or processes are behavior and integration; identification and implementation of projects and knowledge and abilities. In either case, enterprises need to exploit knowledge to create new opportunities in which innovations might be developed. Internal knowledge refers to knowledge inside the organization with the purpose of improving processes or products. External knowledge exploitation refers to outward knowledge transfer (Grimaldi, Quinto, & Ripa, 2013).

There are different types of innovation. Avlonitis et al. (2001) offer a typology that classifies service innovation into six different types: new-to-the-market services, new-to-the-company services, new delivery

processes, service modifications, service line extensions, and service repositioning (Partanen, Chetty, & Rajala, 2011).

One classification is related to originality. Innovation may be incremental whereby value added improvements are made to existing products or services. Radical innovation refers to new technology applications, changes or introduction of new products, services or processes (González Candía, García Coliñanco, Lucero Caro, & Romero Hernández, 2014).

Some scholars examine product innovation from a resource-based perspective. Leonard Barton (1992) argued that paradoxically core capabilities both enable and impede product innovation. She found that core capabilities facilitated the development of projects closely aligned with those capabilities. In contrast, projects lacking alignment with the four dimensions of a firm's core capability (employee knowledge and skills, technical systems, administrative systems, values and norms) were inhibited (Danneels, 2002).

In Mexico, since 2006, the Economy Ministry promoted enterprises' public organizations to create an organization called Foundation Innovation and Technology National Award. The goal was to operate and manage this program to promote the participation of economic entities in the development of technology and innovation and as an incentive for promoting successful processes in the topic. Some of these public organizations are CANACINTRA (National Chamber of Transformation Industry), ADIAT (Mexican Association of Applied Investigation and Development Directives), FUMEC (Mexico – US Foundation for Science) and FUNTEC (Mexican Foundation for Innovation and Technology Transfer in Small and Medium Enterprises) (Premio Nacional de Tecnología e Innovación, 2014). The Economy Ministry has developed the National Model of Management of Technology and Innovation which has a main purpose to enhance the development of Mexican organizations of any activity and size to help them to reach competitive levels through an explicit, sustained and systematic management of innovation and technology.

This Model differentiates four types of innovation: product, process, marketing and organization according to the Oslo Manual. Product innovation is the introduction of a new or significantly improved good or service, in its characteristics or usage. Product innovations in services can include significant improvements in the way these services are given such as efficiency or speed, the addition of new functions or characteristics to actual services or the introduction of completely new services.

Process innovation is the introduction of a significantly improved production or distribution process. This implies changes in techniques, materials or information systems. Methods of creation and provision of services are included, also significant changes in equipment or systems used by enterprises or in procedures and techniques to give these services to customers. Supporting activities as purchasing, accounting or maintenance are considered innovation in processes.

Marketing innovation involves applying new methods in commercialization that implies significant changes in design or packaging of a product, its market positioning, promotion or pricing. The introduction of a commercialization method which application is new for a specific enterprise can be considered as innovation too. The method can be adapted from other enterprise or organization. The first usage of a new method that allows changing the price of a good or service based in the demand or in the desires and need of the customer is also considered innovation in marketing.

Organizational innovation is the introduction of a new organizational method in the practices or organization of the workplace or in the external relationships of the enterprise. Organizing routines and management procedures of work, improvements to the supply chain, restructuring activities, demand based production and application of quality systems are examples of this kind of innovation. The first time usage of new ways to establish relations with other enterprises and with the government, new ways of collaboration with customers, new ways of integration with suppliers and first time outsourcing, are

included in organizational innovation (Organization for Economic Co-operation and Development, 2005). There are studies that suggest that even gender diversity in the administration board has a direct impact on organizational innovation.

Innovation Models

Based on the literature research, we note that innovation models have been developed in order to identify indicators that enable the quantitative measurement of innovation activities in economic organizations. In this paper, three specific innovation models are examined: a) “Innovating for the next three billion” report by Ernst & Young. b) Measurement of basic processes and innovation enabling. c) The Innovation Kite Model

Innovating for the Next Three Billion

Ernst & Young in their report named “Innovating for the next three billion” emphasize the importance of entrepreneurship and the contribution of small and medium enterprises to the growth of markets around the world. This report notes that innovation is more than research and development (R+D) activities, to meet the requirements of quality, affordability and access. Companies should be prepared to rethink their entire business and operating models. They should build new relationships with stakeholders across the supply chain, seek out new distribution channels, and develop an intense focus on operational excellence to bring down costs and increase efficiency (Ernst & Young, 2011). This opens the possibility for MSEs to innovate even if they do not have enough resources to develop R+D activities. These activities are accessible to MSEs despite their size and characteristics.

Ernst & Young describe an innovation model with local and global approaches. The model includes four perspectives to be met in innovation. In the case of MSE, if they take the local approach is important to see innovation as a path to be followed. 1. Customer insight. The customer needs have to be understood and requires resources in local markets. First, observation is an important tool to take note of the existence of potential customers. The next step is engaging customers and treating them as partners and collaborators in innovation. 2. R+D activities need to be carried out where the customers are located. New ideas need to reach the decision-makers to be practical. 3. People and culture. Talent and expertise of the people in enterprises are a key element to innovation. The power of decision making related to recruitment, in translating customer needs into new services or products, the possibility of assign rewards to embed responsibility to ensure managers’ accountability are elements that allow people working in the business to be engaged with innovation. 4. Operations and business model. This element involves trying to identify local partners to help build a value chain. The objective is to make operations as efficient as possible to lower costs and maintain profit margins. The needs of customers must be observed to ensure appropriate pricing policies of pricing (Ernst & Young, 2011).

Measurement of Basic Processes and Innovation Enabling

Basic processes in the enterprise need to be followed by implementing a set of appropriate measurements. Chisea et. al., quoted by Pervaiz (2010), propose an audit tool for this purpose. The use of this tool increases the capability of the enterprise to satisfy strategic and tacit objectives of the business. It will be possible to verify improvements in the execution of processes which are fundamental to generating innovative results. The basic processes and their measurement are listed in Table 1.

Table 1: Basic Processes and their Measurement. (Pervaiz, 2010)

Process	Measurement
Enabling Processes	Leadership. The measure of performance and agreement that indicates that the innovation is working in an effective way.
	Systems and structure. Effectiveness of the organizational structure and infrastructure support to satisfy the needs of the enterprise.
	Resources. Degree to which available resources satisfy the demands of product or service development. Financing sources are important in this classification.
Basic Processes	Definition of the concept. Efficiency in the innovation process that generates ideas for commercial success.
	Product development. Efficiencies associated with taking the concept to market.
	Technology acquisition. Degree to which technology is brought instead of being developed internally.
	Process innovation. Effectivity related with continuous improvement inside the enterprise.
	Production efficiency. Management of costs and the way products or services are delivered.
Performance Indicators	Customer's acceptance. Success in customer's recognition of the value of products or services.
	Financial performance. Financial success product of an effective investment and execution in products and services development.
	Organizational maturity. Joining legal certifications and industrial regulation in order to compete efficiently in the industry.

This table shows the processes and respective measurements proposed by Chisea, et. al. in (Pervaiz, 2010)

The Innovation Kite Model

B+I Strategy is a Spanish consulting firm that helps other enterprises innovate, by developing research projects focusing on networking with stakeholders by interchanging and generating knowledge. In 2007 B+I Strategy issued a publication called "El Cometa de la Innovación" ("The Innovation Kite") to present the results of a Research Project about Strategic Innovation. A product of the research made by the firm is a model called Modelo de Innovación Estratégica "La Cometa" (Model of Strategic Innovation "The Kite"). The Model has two main elements related and complementary:

WHAT: In which innovative businesses the enterprise is working and differential components that it offers. It includes a global vision of a flexible and dynamic enterprise with strategic guides to innovation. The enterprise develops new ideas and experiments for innovative businesses.

HOW: How to develop a constant innovation capability in the enterprise. This is about generating the context in which the activities (WHAT) may work out. Some elements are: leadership and culture, people's management, external relationships, organizational structure, management processes and indicators to assess management.

This Model represents the environment (market, technical, institutional), competitors, customers, government and other external agents that enable collaboration opportunities. The model changes as the environment does, adapting to new circumstances and innovation activities of the enterprise.

The last element is people in the leading role of innovation. They have the responsibility to develop an innovative culture, supported by a management model to assure their training, rewards systems, and resources (B+I Strategy, 2007).

METHODOLOGY

The research will have a qualitative approach. The qualitative phase is about identifying characteristics of commerce and services micro and small enterprises in Morelos. Next, we define innovative capabilities that can be found in these enterprises. This paper provides a literature review to identify innovative capabilities and how they are adequate for micro and small enterprises. The following general and specific objectives and hypothesis

The general objective is to determine the innovation capabilities in micro and small enterprises of the commerce and services sectors and how to measure them. More specifically, we wish to: 1. Define the characteristics of MSEs of the commerce and services sectors 2. Select the innovative capabilities and their indicators that can be applied to MSEs of the commerce and services sectors and 3. Design an evaluation instrument to measure the innovative capabilities and apply this instrument to a specific sample of enterprises of Morelos, México.

The hypothesis involves determining the appropriate innovative capabilities for MSEs that allow for the measurement of innovation level for this specific sector of enterprises.

RESULTS AND DISCUSSION

After reviewing the three previous models which analyze innovation characteristics that can be evaluated in actual enterprises, and the characteristics of the study (Mexican MSE), we propose for future research in Morelos Mexico, the following innovation capabilities be measured in Micro and Small Enterprises:

1. Good/Service: MSEs can innovate in the product they deliver to their target market. The characteristics of this product can be turned into a competitive advantage. Many enterprises, before beginning operations, have already observed a specific need or desire to fulfill. a) Characteristics include new features of goods or services and how often are implemented. b. Variety involves providing more than one good or service to meet needs of a certain target market.

2. Market: Actual and potential customers includes the following components: a) Promotion and advertising strategies includes new ways to reach the market and how often are implemented. b) Market segments involve identifying new market segments and how often this aspect is diagnosed. c) new distribution channels that enhance efficiency and speed in the delivering of the goods or services. d) Customer interaction (relationship) which involves measurement of the customer satisfaction and implementation of improvements in this area.

3. Processes: How goods or services are produced. This component includes the following elements: a) Supply chain management involves finding new material resources in order to reduce variable costs. b) Use of technology involves implementation of new technology resources, such as internet, information systems, social media, machinery and equipment. c.) Formalization which involves processing documentation to ensure the quality of goods and services.

4. Organization addresses how resources are oriented to achieve innovation objectives of the enterprise. This element includes a) Sources of economic and human resources includes new recruitment methods, implementation of incentive and rewards systems, new training programs and finding new funding sources. b) Effectivity of organizational structure including improvements in activities' distribution. and c) Decision-making processes involve new sources of information to improve the decision making process.

CONCLUSIONS

Micro and small enterprises represent an important source of growth and development for the economies of Latin American countries. In Mexico, more than 98% of total enterprises are micro and small units providing 50% of total employment in the country. These enterprises are essential for our economic survival. Therefore, all the tools available for their consolidation are useful.

Innovation is a key element for businesses success and consolidation in competitive markets. Innovation can be present in any business despite its size and activity. We present a literature review. From this review we conclude that innovation does not necessarily involve high technology or a great amount of economic resources. Innovation is about doing things differently and producing a positive impact on products or processes.

MSEs, more than any other type of enterprises, have to be aware of the environment, behavior and response of the market. These are key elements offering innovation opportunities. MSE enterprises are quite adaptable and flexible. They must realize the importance of innovating and implementing actions toward innovation and constant evaluation has to be done. This is the main reason for developing a model of innovation capabilities for micro and small enterprises. These firms cannot be evaluated as big enterprises, because even small efforts count to be innovative.

To begin this paper, the actual framework of commerce and service MSE in Morelos, Mexico was presented to understand the context in which this research is taking place. The definition of commerce and services enterprises and their important role in the Mexican economy are identified. We also discuss the advantages and disadvantages that Mexican micro and small enterprises represent today in regard to innovation.

Once the study context was set, the paper presents a section dedicated to review different definitions and the importance of innovation. According to the literature, we conclude that innovation is the implementation of something new. It is a product, a process, a marketing method or even an organizational change to make a difference and improve the activities of the enterprise. It adds value for the customer. This improvement ultimately will have a positive economic impact within the organization. Once the importance of innovating was explained and an understanding the characteristics of MSE established, the need for formulating innovation strategies of this kind of enterprises is obvious.

Based on academic journal articles reviewed, we concluded that implementation of innovation strategies is not an easy task for MSE. They face limited access to technology and to economic resources. For this reason identification of innovation capabilities retrieved from the analyzed models are those that MSE can handle. Twelve innovation capabilities were identified and classified into four categories.

This paper is limited to the analysis of innovation and how it can be done in all sizes of enterprises. We also identify what can be assessed in MSEs to lead them through innovation that may help them to improve their operations and accomplish their goals.

Future research will generate an evaluation instrument to measure the proposed innovation capabilities and its indicators, grading them in a sample of MSE of commerce and service sectors in Morelos, Mexico. The main contribution of this body of research is to solve for the lack of information on the innovation topic. We wish to help build better oriented strategies which may allow the micro and small enterprises to improve their performance and profitability.

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