

Fueling Small and Medium-Sized Enterprises' Innovation: The Role of Research and Development Expenditure

Parneet Kaur^{*} and Noor Ahmad^{}**

*School of Management Studies
Punjabi University, Patiala, India*

Abstract: Based on the World Bank Enterprise Survey of 9376 SMEs (Small and medium-sized enterprises) in India, this study examines how R&D (research and development) expenditure facilitates process and product innovation across industries. This paper employs a quantitative research design, utilises the probit model, and conducts the analysis in Stata. The empirical findings show that R&D expenditure significantly affects firms' process innovation but does not significantly affect SMEs' product innovation in India. The results vary across sizes. The results of this study provide significant implications for both industry and government executives. Understanding the relationship between R&D investment and process innovation helps determine strategies to enhance resource allocation and promote innovation-driven growth. This research highlights the potential of targeted R&D expenditures in process innovation to modify manufacturing techniques, thereby promoting economic development and competitiveness.

Keywords: R&D Expenditure, Process Innovation, Product Innovation, Probit Model, SMEs, India

JEL Classification Number: O31, L25, C25, O53

^{*} Email: kparneet@yahoo.com; ^{**} Corresponding author. Email: noorahmad.mousazada@gmail.com