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# Small firm-large firm relationships and the Implications for Small Firm Innovation: What Do We Know?

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This paper reviews existing research on small firm-large firm (SF-LF) interactions for innovation. Such linkages are important in local and global supply chains and in public policy initiatives such as procurement. The paper is a collaboration between researchers from ERC and the Manchester Institute of Innovation Research (MloIR).

The review highlights the significant progress which has been made in recent years in our understanding of the contribution of external relationships to small firm innovation. Key results are:

- While SMEs do engage in innovation partnerships they tend to have fewer linkages with less diverse organisations than larger firms;

- These linkages add significantly to SMEs' ability to innovate;
- Supply chain linkages, particularly to customers, seem to contribute most to SMEs' product innovation;
- The nature of SMEs' innovation linkages differs significantly by sector, location and the strategic orientation of the SME.

Despite this progress the evidence relating to the impact on innovation of small firm-large firm linkages specifically remains weak. Developing evidence-based policy is therefore difficult without further research in this area.

Future research will need to consider both the nature and motivation for any small firm-large firm innovation linkage as well as the implications of governance structure. In the paper we propose a new typology of small firm-large firm relationships which differentiates between:

- Supply-chain relationships which work alongside flows of goods or services;
- Relationships which aim to internalise knowledge within a partnership, e.g. licensing agreements or knowledge-informed acquisitions
- Relationships which aim to structure or stabilise the division of innovation activity within a partnership, e.g. contract research, corporate venturing.

Other issues which might usefully be considered by future research are:

- The innovation strategy or objectives of the SME and its larger partner and their willingness and ability to collaborate with suppliers and customers. Absorptive capacity may also be important here;
- The nature, context and content of SF-LF relationships as well as their contractual and/or collaborative frameworks;
- The governance structures involved in SF-LF relationships within the supply chain and how these either reinforce or mitigate power differentials within supply relationships;
- The regulatory and competitive environment within the sector, the availability of alternative suppliers or customers and the appropriability regime. Each may influence SMEs' incentive to innovate.

Synergies between linkages may also be important reflecting the potential for complementarities or managerial learning in working with boundary-spanning linkages.