INNOVATIVENESS AND THE DEVELOPMENT OF ENTERPRISE

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Abstract:
Intensifying globalization processes and requirements of the sustainable environment, growing complexity or dynamics and discontinuity of changes occurring in the environment cause a situation in which contemporary companies face a necessity of a continuous adaptation to new challenges. It is indispensable for them to take up actions which will enable them to achieve a position that will let them function and develop and, first of all, effectively compete in the environment of global competition. This problem is of particular importance to small and medium-size enterprises which, having most frequently a limited potential, have to demonstrate a high level of openness to changes and a flexibility in their actions, so that they can cope with new challenges.

The paper presents the results of empirical examinations carried out in order to identify the intensity of innovation activity in SMEs in Poland. The studies were done in 235 small and medium-size enterprises. While analysing the results, special attention was paid to factors determining the competitiveness of the enterprises in question and the learning methods used by these companies.

Finally, the paper presents a list of recommendations for the enterprises, regarding the direction of changes which could start the processes of corporate learning, improve relationships with other business subjects in their environment, aiming at enhancing innovativeness and competitiveness of Polish small and medium-size enterprises. These recommendations may be helpful for entrepreneurs in different countries being on a similar level of economic development.

Keywords: indicate company's innovativeness, small and medium-size companies, development of companies

1. INTRODUCTION LEVEL HEADING

Intensifying globalization processes, growing complexity or dynamics and discontinuity of changes occurring in the environment cause a situation in which contemporary companies face a necessity of a continuous adaptation to new challenges. Increasingly popular becomes the concept of sustainable enterprises. This is the concept of an enterprise of the future, flexibly adapting to the on-going and turbulent changes taking place in the environment and capable of functioning under the conditions of chaos and crisis. This concept and the manner it is implemented are being constantly verified by the market (Grudzewski, Hejduk, Sankowska, & Wańtuchowicz, 2010, p. 300).

The key problem is a well-thought-out, smart and efficient stimulation of the changes in the business environment conditions to attain those that are most favourable to the functioning business model. Not only does it enable the enterprise to keep on growing but also to use the emerging chances and opportunities. The most important factors currently influencing and shaping the conditions under which the sustainable enterprise operates include:

- Simultaneous co-occurrence of numerous overlapping and intertwined processes.
- Difficult-to-predict transformations and changes in various spheres including politics, systems, society and economy (Grudzewski, Hejduk, Sankowska, & Wańtuchowicz, 2010, pp. 300-301).

In the recent years a growing significance has been attributed to the disciplines requiring a high input of intellectual concepts in implementing and commercialising new products. Emphasis is given to the role of competitiveness of enterprises (Stankiewicz, 2005, p. 223). Hence, it becomes indispensable to introduce innovative activities which can take place in industry and services and refer to both products and manufacturing processes. In the days of globalization the ability to create innovation becomes a factor of growing importance, as it conditions an improvement in company's competitiveness. It can be even claimed that one of the qualities characteristic of modern economy is the increasing role of innovativeness as an agent determining the some internal mechanisms which will facilitate such activities through e.g. corporate learning processes.

2. ENTERPRISES' INNOVATIVENESS

Innovativeness can be generally defined as a tendency and ability of an enterprise to implement an innovation consisting of the organization's resources and methods used during their implementation (Moszkowicz, 2001, p.70). Thanks to innovativeness, enterprises strengthen their position on the market.

Innovativeness of an enterprise is a multidimensional concept, which results primarily from a diversified approach to understanding this idea. Colloquially speaking, innovations are related to manufacturing processes, particularly to techniques, technologies and launching new products. Less frequently, they are identified with changes occurring in other spheres of e.g. economic, organisational or administrative activities (Janasz, 2003, p.49).

Generally, it is possible to distinguish two ways of defining he term: the extensive and the narrow one. In the broad meaning, innovations are understood as novelties, e.g. E.M. Rogers calls an innovation anything that is perceived by us as new, regardless of the objective novelty of a given idea or object (Łobejko, 2005, p.62). There is also a statement that an innovation is a process of transforming an opportunity into new ideas and implementing such ideas in practice (Tidd, Blessant, & Pavitt, 1997, p.28). R.A. Burgelman distinguishes three types of innovations:

- Adaptation innovations, concerning adaptations, improving and expanding existing products and services and/or undertaken actions,
- Radical innovations related to completely new products and services, and/or actions undertaken,
- Architectonic innovations related to changing the components making up a product (Flynn, Dooley, O'Sullivan, & Cormican, 2003, p.422).

The narrow approach assumes that not every novelty can be treated as an innovation. An innovation is such a novelty that was launched on the marked for the first time. This may refer to a new product, a new process, a new system or a method of management (Łobejko, 2005, p.62).

Summing up, it can be claimed that an innovation is a change consciously designed by man, which concerns a product (manufacturing and launching new or significantly improved products), manufacturing methods (implementing new or significantly improved methods of manufacturing), work and production organization (new organizational solutions in the meaning of their structure and processes, or a significant improvement of the existing ones) or management methods used for the first time in a particular community (an enterprise is the smallest community) in order to achieve some definite social and economic benefits, which meets particular technical, economic and social criteria (Baruk, 2007, p.136).

An innovative idea may derive from a wide range of sources. According to P. Drucker, a conscious, systematic innovation starts with the so-called analysis of opportunities for an innovation whose sources, having a different meaning at a different time, result from:

- Unexpected successes or failures of the organization, and also unexpected successes and failures of its competitors,
- Incohesion, particularly incohesion in manufacturing or distribution processes, or in clients' reactions,
- Needs related to the processes implemented,
- Changes in the manufacturing sector or on the market,
- Demographic changes,
- Changes in meanings and perceptions,
- New knowledge. (Drucker, 2002, p.236)

Companies which are capable of systematic creation and implementation of innovations gain and advantage over their competitors, since high risks and costs accompanying innovative activities inhibit he innovative aspirations of their rivals. In particular, such enterprises may:

- gain an advantage over their competitors and limit the latter's innovative aspirations, as a result of high risk and costs accompanying innovative activities,
- assess when risky attempts become profitable and when it is better to limit oneself to imitation strategies,
- answer the strategic question: in what disciplines should we strive for innovations and when to give up?,
- estimate what makes the basis for the existing and potential advantages of the competition,
- adequately estimate if, due to innovations, they are able to keep in a long-term perspective some particular advantages which will compensate for the costs of manufacturing and implementing the innovation. (Baruk, 2007, pp.136-137)

3. INNOVATIVE ACTIVITY OF SMALL AND MEDIUM-SIZE ENTERPRISES IN THE LIGHT OF EMPIRICAL RESEARCH

Contemporary enterprises are functioning in the environment of global competition. Generally, it can be claimed that competition is a phenomenon whose participants compete with one another in trying to achieve analogical goals, which means that the activities initiated by one of them make it difficult (or sometimes even impossible) to achieve the same goals by the others. To become successful, companies have to be better than their rivals in the areas recognized and valued by clients.

The driving force of the European economy is small and medium-size enterprises which make from 96 to 99% of the total number of businesses, give employment to a vast number of people (60-70% of total employment in industry and services) and make the economy more flexible (Svetličič, Jaklič, & Burger, 2007, p.37). Offering support to SMEs is one of the priorities of the European Commission in the sphere of economic development, creating new job places and economic and social cohesion.

Also in Poland, SMEs form the most numerous group of businesses. Further down, the study presents the results of the empirical research carried out in SMEs functioning in the region of Lublin City, situated in central-eastern Poland. The province covers the area of 25,155 square kilometers (12% of the total area of Poland) and is third largest region in the country. The Lublin Region is inhabited by 2,167,200 people (5.8% of the country's population). The province is rather weakly populated – there are 88 people per 1 square kilometer (the average for the country is 122.1 people), and weakly urbanized, only 46.8% of the population live in cities, whereas the average value for the country amounts to 61.9%.

In the East the Lublin Region has two neighbours, Byelorussia and Ukraine, which creates excellent conditions for undertakings directed at the markets of Eastern Europe.

The province of Lublin is one of the most poorly developed regions of Poland. The gap between the level of the development of the region and that of the whole country, and especially that of the most advanced regions, is increasing year by year. The industry of the Lublin region concentrates 3.5% of the country's employment rate and provides 2.7% of the total value of industrial sold production. The province produces 4% of GNP.

At the end of December 2012 there were 162.095 companies registered in the Lublin region (2,4% more in comparison with the previous year), 162.090 of which were active in the private sector. Businesses run by individual owners made 77.0% of the total number of enterprises running business activities. (Budzyński, Wojciechowska, Bartuszek, Kuśmirowska, & Wysocka, 2013, p.100)

The Lublin region is a typical agricultural area which has not experienced any intensive industrialization processes and, consequently, small business prevail here – 95% of all companies are firms employing up to 9 people, 4% are small business employing 10-49 people, and only 0.8% is made by companies offering jobs to 50-249 employees. Big companies (employing more than 250 people) make as little as 0.01% of all business subjects functioning in the region.

The Lublin region is the biggest university center in Eastern Poland, with a rich network of schools and educational centers at all levels, concentrated mainly around the capital town of Lublin (Buczacki, i inni, 2008, p.18).

3.1. Research methodology

The study involved small and medium-size enterprises (employing fewer than 250 people) registered in the Lublin region.
The aim of the empirical tests was to identify the degree of SMEs' innovative activities in the Lublin Region. The following questions were posed:

- Which factors have the biggest influence on the company's competitiveness?
- What are the development aspirations of the entrepreneurs and what expectations do they address at supporting institutions?
- What are entrepreneurs' investment plans?

The examined population involved all small and medium-size enterprises active in the area of the Lublin region. Random sampling was used.

3.2. Description of analyzed enterprises

The research was done in 235 enterprises including 103 small firms, i.e. the ones employing 10-49 people (43% of the sample examined), 95 (40.4%) micro-companies (employing up to 9 staff members) and 37 (15.8%) middle-size enterprises (employing 50-249 people).

The average age of the examined enterprises was about 11 years and almost every one in four companies had more than five years of experience. The most numerous group (30.2%) was the companies active on the market for 6-10 years. Firms functioning for 11-15 years made 26.4% of the studied population, whereas the remaining businesses (i.e. 19.2%) had been functioning on the market for more than 15 years.

Depending on the sector, the companies were classified into 6 groups: industry (10.2% respondents), construction (15.7%), trade and repairs (40.0%), transportation, storage systems and communication (7.7%), servicing property and firms (6.8%), other (19.6%), though many companies declared being active in more than one sector.

The analyzed enterprises limit their activities primarily to the regional (39.6%) or local (33.6%) market. Only 23% of the respondents declare activities on the country scale, and as little as 3.8% function on the international arena. Such a low tendency of the companies to run country-wide or international activities suggests low entrepreneurship or competitiveness of the studied firms. Enterprises reducing the area of their activities to the regional, or even local level make their development dependent on

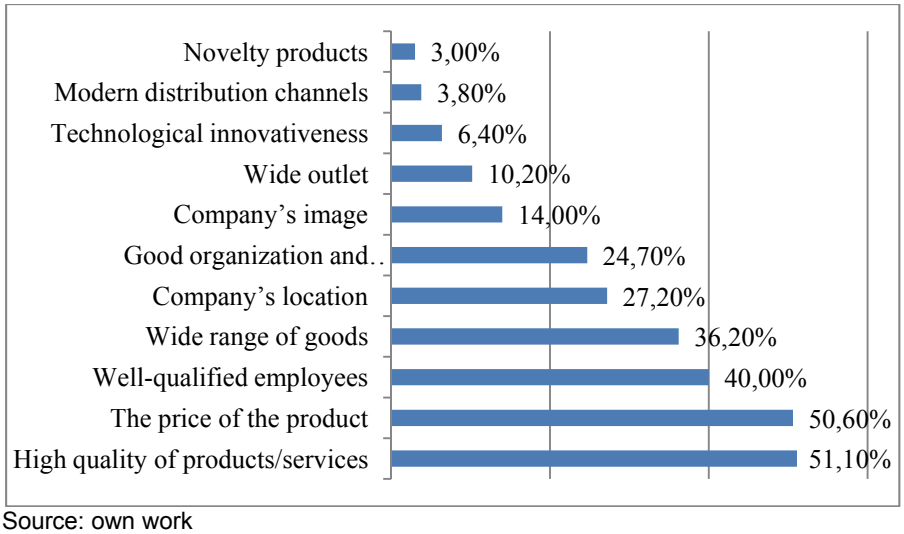
internal demand of the region which is rather low as a result of the underdevelopment of the Lublin province, which in a long-term perspective may become a factor limiting the dynamics of the development of such enterprises.

3.3. Competitiveness of the studied enterprises

The success of an enterprise in a particular sector depends to a large extent on its mastering certain competences. What factors, according to the respondents, make it possible to compete effectively in their sector? An adequate identification of key success factors facilitates the selection of the right strategy which will lead to achieving the assumed goals. In the study the respondents pointed at three factors, most important to them, determining effective competition in the sector (Picture 1).

The results of the questionnaire were puzzling. Every second respondent pointed to the high quality of products and services (51.1%) and the price (50.6%) as the basic sources of the competitive advantage. Although choosing competition based on the high quality of goods and services cannot be denied, using price as a means of competition is not so obvious. Low prices of the offered goods help achieve short-term goals and enables effective functioning in a particular sector, yet they do not facilitate building up a permanent competitive advantage. The high position taken by price as an agent determining effective competition is not a positive phenomenon. Competing by means of price must frequently mean giving up a part of the margin, which means lower profits, lower economic efficiency and, in a long-term perspective, slower development and increase in the company's value.

Picture 1: Factors determining, according to the respondents, effective competition in the sector



Source: own work

The role of well-qualified staff in creating the competitive position was recognized in as little as 40% of the companies studied. The enterprises rarely see the source of their competitive advantage in their proper image (14%) or wide outlet 10.2% of respondents marked this factor), because, at it was already noticed, their activities hardly ever go beyond the borders of the province, and expansion to new broader markets is rarely a consequence of long-term strategies of the companies in the Lublin region.

It is worrying that the factors directly related to the enterprises' innovativeness, i.e. technological innovativeness (6.4% of choices), novelty products (3.0%) and modern distribution channels were treated by the respondents as the least vital determinants of their firms' competitiveness.

3.4. Pro-innovative activities undertaken by the studied enterprises

A relatively small scale of activities or the local character of the studied enterprises do not negatively affect their development aspirations. Generally, it can be concluded that SMEs in the Lublin region declare a will to develop (68.9% of the analyzed companies). As the main direction of their development, they pointed to expanding the range of their activities by new areas (this direction was

declared by 38.4% of the respondents) and increasing employment (36.9%). Fewer firms (24.7%) expressed their will to enter new markets in the nearest future.

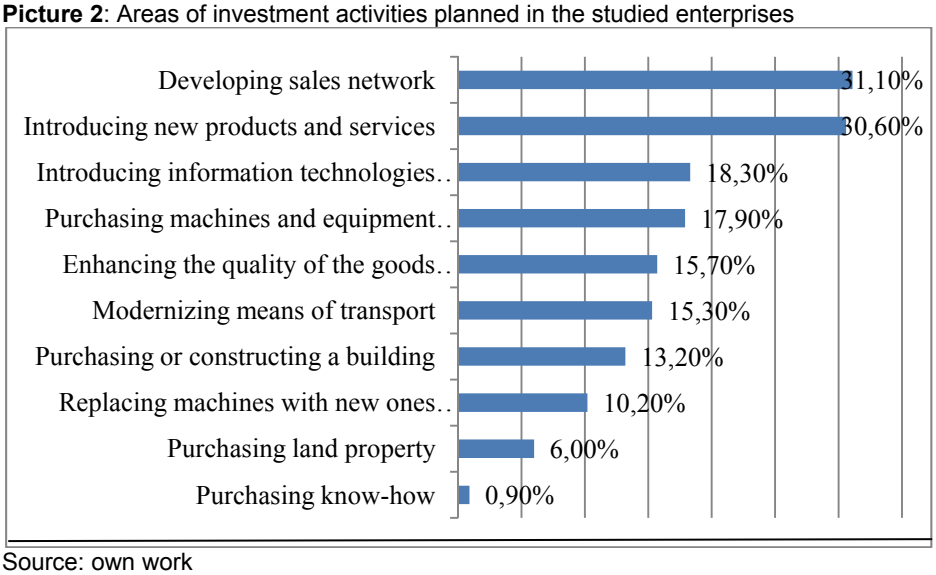
The development aspirations of the entrepreneurs, current social issues and fast rate of economic growth create an environment favoring the enterprises' advancement, yet the necessary agent for their progress in a longer time perspective is investments. The areas of investment planned by the entrepreneurs point at the models used – the respondents selected maximum three areas of planned investment activities (Picture 2).

The results obtained suggest that investment plans are often different from development aspirations of the companies. It turned out that businesses frequently intend to invest in the areas which they do not regard as key factors for success in heir competitive struggle.

Only one out of every four companies considered expansion into new markets as a significant competition agent. Planning their investments, they often want mainly to strengthen their market position through developing sales network (31.1% of the respondents) and launching new products (30.6%).

Improving the quality of the offered goods which is related to the most highly valued competition factor among the respondents will become the subject of investments to merely 15.7% of the studied companies. A slightly more often selected area is planning expenditure is a purchase of machines and equipment due to introducing new technologies (17.9%) and IT (18.3%). Purchasing know-how is of minimum interest and is ticked by merely 0.9% of the firms.

Picture 2: Areas of investment activities planned in the studied enterprises



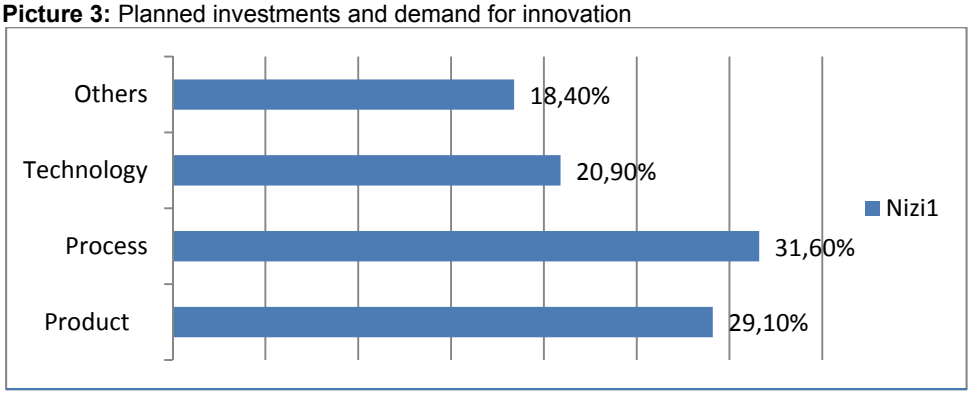
Source: own work

3.5. Planned investments and demand for innovation

Analysis of the investment plans of the surveyed enterprises served for the evaluation of the future demand for process innovation, product and technology. For this purpose, investment areas were treated as a source of demand for innovation process (development of the sales network, computerization of the company, the purchase of know-how) and product (implementing new releases and the improvement of the quality of offered goods), technological (modernization of transport, the purchase of new machinery and equipment because of the technology).

The biggest demand can predict the innovation process, a little less of plan to invest in product innovation. Technological innovations are rarely included in the investment plans of the respondents (Picture 3)

Picture 3: Planned investments and demand for innovation



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4. CONCLUSIONS

The results of the present empirical studies revealed that modernness, the range of innovations implemented and corporate learning processes do not appear in a favorable light in the context of SMEs in the Lublin region.

Limiting the companies' business activities to the local and regional market results in the lack of pressure caused by fierce competition and, as a consequence, relatively little interest in introducing modern, costly innovations. Low competitiveness of the enterprises on a wider market intensifies the competition within the region, which leads to e.g. price competition that additionally decreases the economic effectiveness of SMEs.

There is an obvious lack of cooperation among the enterprises, e.g. in the form of clusters, and creating a permanent competitive advantage in the group. Entrepreneurs, competing with one another, perceive other companies as rivals rather than partners in solving similar problems. The study reveals that the main barriers hindering the cooperation with other businesses include the lack of mutual trust and common interest. The low level of trust among economic subjects does not favor the transfer of know-how.

The entrepreneurs do not appreciate the role of the factors directly related to innovativeness, i.e. the innovative character of products, modern distribution channels or technological innovativeness in creating competitive advantage and, as a result, reveal low activity in the sphere of pro-innovation works. The activities undertaken by the companies were most often of occasional character.

Economic problems which the enterprises have to tackle make most of the companies focus their attention on current problems connected with their survival. There is no visible cohesion in planning their activities, no broader perspective or looking for the sources of permanent competitive advantage. In many cases the unsatisfactory competence level in both entrepreneurs and employees makes it impossible for them to recognize and take advantage of new opportunities, as they are afraid of the risk related to introducing innovations, entering new markets etc.

The lack of knowledge concerning external sources of financing, poor understanding of the techniques of innovation management, low awareness of the relationships between innovation and competition – all this contributes to the fact that the entrepreneurs are not able, not without some external support, to accept the risk connected with implementing innovations on a higher technological level and wider geographical coverage. At the same time, SMEs make only limited use of the existing sources of support in the innovation process, which is confirmed by the low level of their cooperation with external partners.

Facilitating the cooperation of SME sector with innovation supply organizations due to creating a system of refunds of implementation expenses made by companies, programs of technological development assistance on the regional level, simplifying the procedures of using the services of innovation supply centers and offering financial incentives to do research for the sake of SMEs.

Creating mechanisms of market development of innovative firms.

The above recommendations may be helpful to entrepreneurs in different countries (not only in Poland) which are on a similar level of economic development, when it is advisable to start organizational learning processes, improving relationships with other business subjects in the environment in order to increase innovativeness and competitiveness of SMEs.

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