

Premises of macro and micro organizational innovation of small and medium-sized enterprises as a competitive advantage in the process of their development

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Abstract:

This paper attempts to identify the conditions that affect the innovation of small and medium-sized enterprises in the context of building their competitive advantages. They were divided into two groups: macro and microeconomic factors. In particular, the paper drew attention to the circumstances affecting the implementation of innovative organizational solutions, among others, in terms of economic accounts, which would improve the quality and efficiency of decision-making in a highly competitive environment.

Keywords: organizational innovations, Small and Medium-Sized Enterprises, growth of SME.

Introduction

Currently the world economy is dominated by trends of globalization and regionalization. These two distinct phenomena make potential opportunities but also risks for small and medium-sized enterprises.

Sources of globalization should be found in the opening of the highly developed economies, and consequently, unfettered, international movement of capital, human resources, goods and services. One of the most important consequences of globalization is increased competition in world markets. Undoubtedly, the best market position in this system have companies that gain a cost advantage and can, therefore, dictate market prices. Therefore, many large companies change location, choosing a place for business where the costs (especially labor ones) are lower.

The process of globalization may negatively affect the small and medium-sized enterprises, which usually operate in smaller, local markets. Enterprises of this kind do not have such a strong market position as major international corporations. It seems that the best solution for small and medium-sized enterprises in the context of these trends is to specialize and operate in market niches. With the rapid expansion of information technology it is possible to operate also in niche sectors - but on an international scale - through a

dynamic development of e-business tools. The combination of two ideas: specialization in the fields of high technology and using the Internet to gain new markets seems to be one of the most important alternatives for SMEs. A great importance, due to the strategies of cost and economic balance, have also innovative approaches to organization and management methods, especially in the context of supporting decision-making processes through the implementation of modern tools of controlling and management accounting. An innovative activity in the field of management science among representatives of small and medium-sized enterprises appears to be not very large, but more often entrepreneurs emphasize the importance of economic accounts in the context of the company growth and transition into the next phase of its development. For this reason, the issues of the use of appropriate tools to help manage the growing small and medium enterprise seem very significant.

The purpose of this paper is to present some selected premises encouraging SMES to implement organizational innovation, especially in terms of controlling, in building their competitiveness in the subsequent phases of growth.

Macroeconomic factors of innovativeness and competitiveness in SMEs.

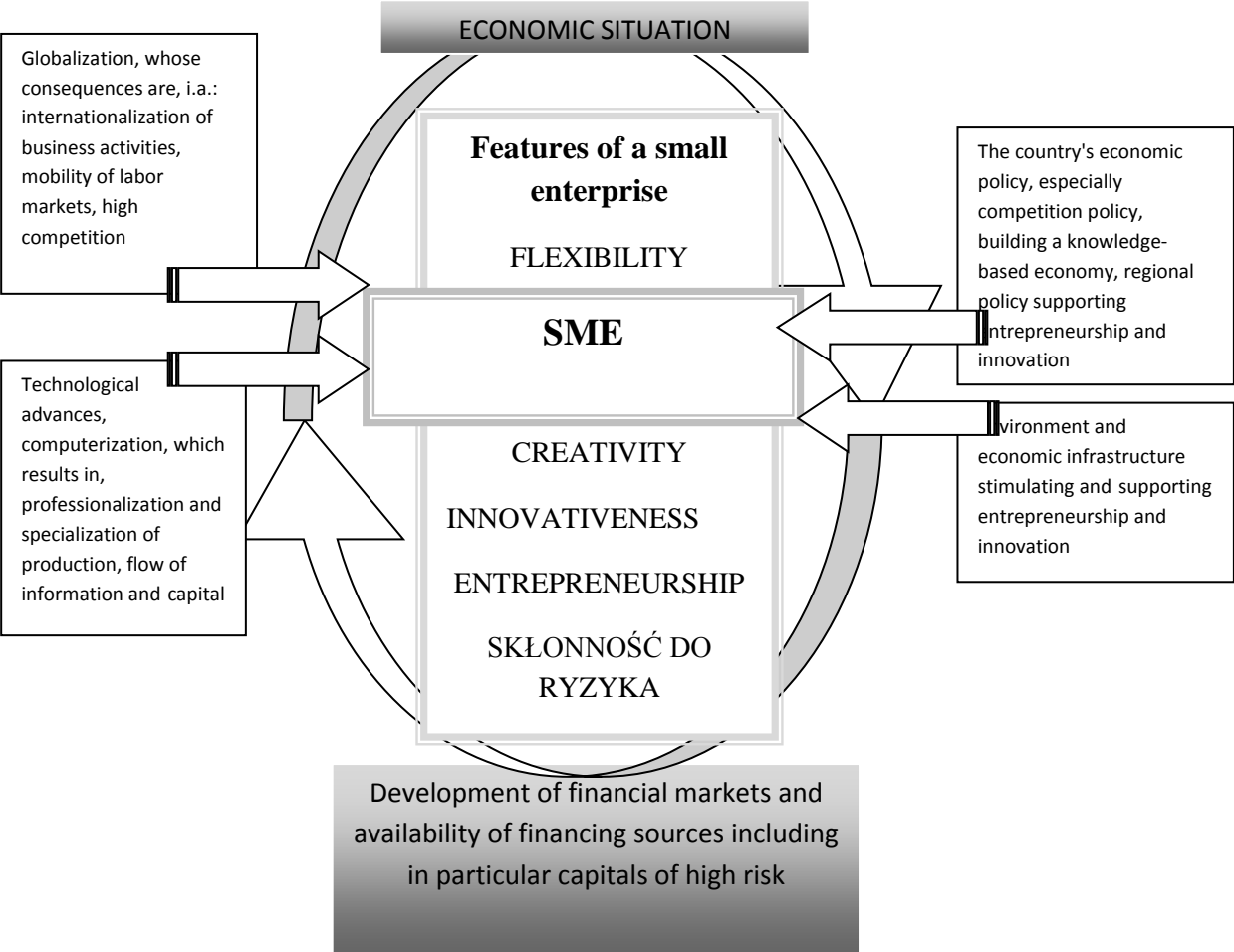
The trends characteristic for modern economy, such as: professionalization, specialization and increased mobility in the labor markets, as well as the growing importance of individual entrepreneurship, computerization and internationalization, have become a prime mover of complex business environment.

It should be also emphasized that this complexity of business processes and relationships between the different subjects has also another dimension. Because each of the entrepreneurs who is engaged in economic activities sets themselves some targets to be achieved, builds strategy for the functioning of the market, but relationships with other entities are not yet a permanent phenomenon - they are naturally changed, and are even more dynamic than the owner who manages the SMEs could provide. Because of continuing changes in the business environment, the concept adopted by the entrepreneur of building a competitive advantage, refracted. Therefore, the views on the fact that the activities and business management basically come down to the use of elements of the reality around us to achieve certain objectives, incurring expenditure (costs) and expecting economic benefits that are located in the vicinity of the subject seem to be right¹.

It is a renowned opinion, both among economic theorists and practitioners about the important role of small and medium-sized enterprises in creating efficient economies. They contribute to the maintenance of competitive conditions, so their development should be (and often is) regarded as one of the major objectives of economic policy. Cooperation among

companies is also important, and therefore we should not treat each enterprise as an isolated unit, but see the benefits of mutual support to entities of different sizes and different activity profile. Competition policy cannot be limited only to control the process of mutual elimination of firms from the market but creating instruments that will support the coexistence of small, medium and large businesses in diversified industries. These demands are particularly important for economies that in the last two decades have passed a profound transformation as a result of changes that occurred in Central and Eastern Europe, and now in particular, they are exposed to high competition from giant international corporations and products with low labor costs in the Far East markets. It is worth noting that many small and medium-sized enterprises operating mainly in local markets, are struggling to compete with large companies with a large capital strength and marketing on an international level. These companies often, through long experience and developed market tools, have enormous opportunities to promote their products and push out native companies from the local markets. In addition, mass products imported from the Far East with a fairly low quality but at the same time at an extremely competitive price also become a barrier for development and they are competitive for small and medium-sized enterprises. The role of small and medium-sized businesses in any economy is undeniably important, however, for the smooth development and ensuring their place among other participants in the market, there must be certain conditions in their environment. External factors affecting the SME sector entities are of such importance that their strength can cause serious fluctuations in the pace of development, and often stabilization level (some of them have been presented in figure 1). Small businesses in their nature are more sensitive to economic fluctuations, risks arising from economic policy, etc. The activity of small and medium-sized enterprises in conditions of high uncertainty - has become to some extent their power - through flexibility and continuous search of opportunities appearing in the market.

Fig. 1 Selected macroeconomic factors shaping innovativeness of SMEs



Source: own research

In competitiveness building of a business entity the tendency of an entrepreneur and his associates to the creation of knowledge are of the great importance. Knowledge was currently outside the capital and labor market and an important factor in the economic success of the company. The source of knowledge can be developed both internal mechanisms of innovation, as well as collaboration with external institutions and organizations. Of course, of great importance, especially when it comes to innovation of organizational nature, is the quality of human capital and its tendency to initiative. In this context, the opportunity for the development of small and medium-sized enterprises should be seen in the far-reaching integration of science and technology. This integration should take place not only locally, but also at the level of regions, including regions of neighboring countries.

Referring to the theory of economic growth, they confirm that the development of regions depends on their endogenous potential and increasing innovation, while fostering the strengthening of the partnership business, academia and public authorities. (¹For more: Kaszuba-Perz A., Czyżewska M., Tomaka A., Realizacja założeń strategii lizbońskiej w budowaniu Regionalnej Strategii Innowacji na przykładzie województwa podkarpackiego in: Pangasy-Kania S., Okoń-Horodyńska E., (ed.), Innowacyjność w budowaniu gospodarki wiedzy w Polsce, Instytut Wiedzy i Innowacji, Warszawa 2007, pp. 91 – 103.)

Efforts to build the innovation capacity of small and medium-sized enterprises are possible after taking into account regional and local economic and social conditions. The proximity of individual countries and regions to create adequate space for the internationalization of cooperation between enterprises and countries neighboring regions Central and Eastern Europe will give an opportunity to shape a new dimension for the development of these entities. At the same time cooperation, particularly in the areas of transfer of knowledge and experience (so in such areas as organizational innovation) could contribute to the empowerment of small and medium-sized enterprises in macro-regions and local markets.

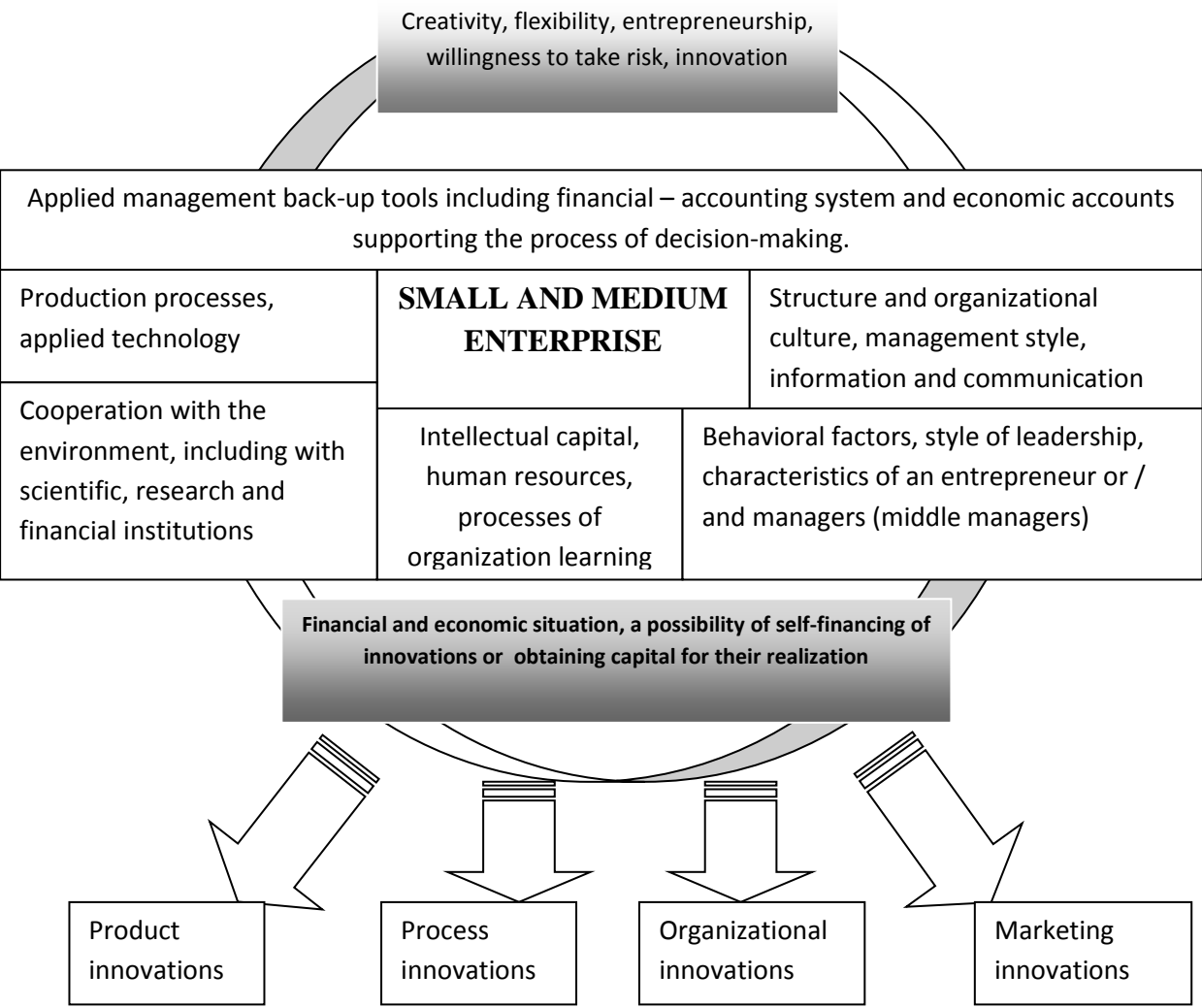
Development of small and medium-sized enterprises through organizational innovation as one of the competitiveness advantage-microeconomic approach.

Small and medium-sized companies are considered to be highly innovative. It is worth quoting at this point P. Drucker who emphasizes strong business relationships with the environment, talking about it as a situation that can shape the economy (²F.P. Drucker, Innowacja i przedsiębiorczość. Praktyka i zasady, PWE, Warszawa 1992.)

In addition, he also points out that entrepreneurship requires innovation policy, thus setting the organization to change and treat them as opportunities rather than threats. The practice is comprised chiefly of determining the effects of the organization as innovative and entrepreneurial activities. This is undoubtedly related to adjustment of the organizational structure, management system and payroll system to the needs of entrepreneurial and innovative management. It should be noted, however, that rarely in the organizational structures of small and medium-sized enterprises there are isolated units or departments involved in research and development. These studies are usually conducted at the request and are short-term (perhaps hence the result of their high innovation performance). In contrast, in large companies, research and development are carried out by long-term specific strategy. Large companies compared with small ones have also a greatly increased ability to obtain financing. In large companies the capital is in the hands of shareholders, mostly in the

capital market, hence new financial opportunities result from. In the case of companies belonging to SMEs, capital is owned by a family or a small group of people. Thus, the abilities to access the capital market are limited.

Fig.2 Innovativeness of SMEs in the context of their internal processes and conditions – microeconomic approach.



Source: own research

Innovations are often considered as the basis for competitive advantage. (Bartes F., Srzednicki A., *Walka konkurencyjna przedsiębiorstw*, wyd. C.H. Beck, Warszawa 2003, pp. 165-166.) It should be emphasized that the prerequisite for achieving such an advantages are coupling innovation processes with enterprise management system. It seems, therefore, that innovation of the company is closely related to its management model and vice versa. We can also assume that an innovative approach to management processes determines (or

even forces) innovativeness and entrepreneurship, and these in turn shape the development of the company. As it can be noticed from the research conducted by A. Szychta among Polish companies, an opinion about the need for implementation of modern tools to support decision-making processes dominates. (⁴Szychta A., *Etapy ewolucji i kierunki integracji metod rachunkowości zarządczej*, Wydawnictwo Uniwersytetu Łódzkiego Łódź 2008.)

The changes taking place in subsequent phases of growth of small businesses, determine the information needs, and these in turn need to use instruments of economic calculation including controlling. (⁵For more: Kaszuba-Perz A., *Wzrost małych i średnich przedsiębiorstw w kontekście stosowanych narzędzi rachunkowości zarządczej i controllingu*, w: Woźniak M.G. (ed.), *Nierówności społeczne a wzrost gospodarczy*, Zeszyt no. 20, Wydawnictwo Uniwersytetu Rzeszowskiego, Rzeszów 2011, pp. 364-374.)

High vulnerability to external factors, sensitivity to competition and a number of internal factors tend to assume that, especially small and medium-sized enterprises should implement techniques for in-depth analysis of the environment and risks occurring there. Appropriate tools would allow to compare the current compliance activities with the financial plans and strategic objectives, as well as risk identification and risk measurement in business activity. S. Cyfert emphasizes that a huge impact on the good condition of enterprises have a relationship between the components of the organization. (⁶Cyfert S., *Strategiczne doskonalenie architektury procesów w zarządzaniu przedsiębiorstw*, Seria Prace Habilitacyjne no. 28, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2006, p.16.) These elements include: processes, human resources, organizational structure, organizational culture, while at the same time they are determinants of enterprise competitiveness.

Innovations can become a contribution or the way of the company to achieve success, but they are subjected to the occurrence of certain internal factors, among which there are: financial capacity, knowledge and intuition in the market, the dynamics of the company (depending on its size and especially the quality and abundance of human capital), long-term planning and processes that make up the continuity of the company, and above all the willingness and readiness to take risks. (⁷See: A. Francik, A. Poczowski, *Procesy innowacyjne*, Wydawnictwo Akademii Ekonomicznej w Krakowie, Kraków 1991, p.27.)

Unquestionably, innovations are one of the key factors affecting the level of competitiveness of enterprises. In the literature, the concept of competitiveness is understood as a state of dormancy in the competition, or as the very process of rivalry between the actors who fight for advantage in the market. (⁸Blaug M., *Teoria ekonomii. Ujęcie retrospektywne*. Wydawnictwo Naukowe PWN, Warszawa 2000, pp. 629-631) And

among the determinants of competitiveness of IMD (World Competitiveness Yearbook) one can distinguish, (⁹The World Competitiveness Yearbook, IMD 2002) except these macroeconomic ones (state of the economy, business environment, infrastructure), the microeconomic determinants, namely: the effectiveness and efficiency of business management structures. In addition to those already mentioned, the competitiveness is determined by internal processes within the enterprise such as design and manufacturing processes, and also the processes of sales, marketing, distribution, research and development and others (they have been presented in figure 2).

Conclusions

In the context of changes taking place in the economy as a result of, among others, globalization, many authors emphasize the need to build competitive advantage in the long run, and in addition, they pay attention to the fact that in connection with the internationalization of economies, there are new sources of competitive advantages. (¹⁰See: Gierszewska G., Budowanie konkurencyjności przez polskie przedsiębiorstwa w latach 1990-2009, w : Gierszewska G. Kisielnicki J., Zarządzania międzynarodowe. Konkurencyjność polskich przedsiębiorstw, Łazarski, Warszawa 2010, p. 110)

As the process of building competitive advantages we can consider the exploration and implementation of innovation, both in technology, products, but also an innovative approach to marketing and sales processes, or an analysis and inference to improve decision-making systems. For only entities that are able to identify, analyze and inferences can quickly respond to emerging changes in their environment. Competitive advantage can manifest itself by having the company of such analysis and research tools that will help determine the circumstances of the entity in the market, the degree of its development, or threats existing inside and around it. (¹¹Kaszuba-Perz A. P.Perz, Innowacyjne rozwiązania controllingowe w kontekście zarządzania przedsiębiorstwem w dobie kryzysów gospodarczych, w: Nierówności społeczne a wzrost gospodarczy, ed. M. G. Woźniak, Zeszyty Naukowe no. 17, Rzeszów 2010.) According to research conducted by the Central Statistical Office in the years 2011-2013 among Polish enterprises, an innovation activity was shown by 18.4% of industrial enterprises and 12.8% of service companies. (¹²Działalność innowacyjna w Polsce, Central Statistical Office, Warszawa 2014.) It is worth emphasizing that the largest group consisted of product and process innovations (17.1% in industrial enterprises, while 11.4% in service enterprises). Organizational innovation was shown by 8.3% industrial enterprises and 7.1% of enterprises in the services sector. One should add that in this respect the amount of implemented innovations decreased as compared to previous years.

Of course, the most innovative activities were shown by large enterprises (taking into account the number of employees). Among enterprises employing no more than 49 employees, the percentage of implemented innovation was the smallest. Such a situation may be mainly due to a lack of developed mechanisms for knowledge transfer, cooperation with scientific research institutions. It is also worth noting the barriers of a financial nature. Continuing the struggle for survival in the market causes reluctance of entrepreneurs to engage financial resources in new ventures, while mistrust of alternative sources in the form of e.g. a high-risk capital.

Despite these obstacles, in today's economic condition, a widely understood technological, process, organizational and marketing innovation, seems to be one of the most important tools to obtain a significant competitive advantage in international markets. The creation of mechanisms allowing for the free transfer of technology not only between the science sector and the sector of small and medium-sized enterprises but also continuing cooperation in this field between the two sectors of individual countries in Central and Eastern Europe is of great importance for the development of this type of company, so important for the economies of regions and local communities. An extremely significant issue is also a chance to obtain by small and medium-sized enterprises funds for research and development and implementation of modern technologies, including the improvement of tools for financing innovative activities in the field of venture capital.

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