Support of Innovative Enterpreneurship and Innovation for SME's

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Abstract : In our globalied word SMEs face challenges, opportunities but treats as well. The slogan Think global – Act local » highlights the importance of the innovation as a necessity driving force and requirement for survival and growth for a company. The paper provides the definition of the innovation, describes the innovation process, presents the factors influencing the implementation of the R&D&T results. The author summarizes the characteristics and problems faced by the Hungarian SMEs while innovating. Finally the papers highligts the new task for entrepreneurship in the EU in the light of the Europe 2020 strategy.

Introduction

The issue of globalization and its consequence to the SMEs is a hot topic in economic development policies since the Bangkok declaration on Global Dialogues and Dynamic Engagement held in February 2000 and organized by the United Nations Conference on Trade and Development.

"Globalization is an ongoing process that presents opportunities; as well as risks and challenges. It has expanded the prospect for technological advances and for effective integration into the international economy. It has increased prosperity and the potential for countries to benefit. However, globalization also raises the risk of marginalization of countries, in particular the poorest countries, and the most vulnerable groups everywhere. Income gaps within and among countries remain wide, and the number of people living in poverty has increased. Asymmetries and imbalances in the international economy have intensified. Instability in the international financial system continues to be a serious problem and requires urgent attention."

SMEs are deeply affected by the globalization of the markets, which is forcing all firms to act and think more globally. The world economy, the liberalization, the increasing globalization, the internal market of the EU, e-commerce, and other

institutional changes are gradually shifting the behavioural pattern of the SMEs. In remarkable short time, economic globalization changed the world's economic order with new challenges and opportunities.

As far as the SME sector is concern, the logo for the 3rd Millennium reads as follows: **Think global - Act local**. The majority of the SMEs are working within the framework of a local environment. Their consumers are their neighbours and in the vicinity of their village/city/county/region. I am fully agree with Thomas Friedman`s views on globalization in the 2000 book The Lexus and the Olive Tree [1], where in addition to advocating for globalization, he poins out the need for a country to preserve its local traditions, a process we call « glocalization ». This is their strength and opportunity. However, they have to act taking into consideration the influence and external factors of the globalization, the particular stage of internationalization including challenges of the competitive market players, environment concerns, sustainable economic growth, international standards, and information technology.

1 Definition and characteristic behaviour

The *European Commission's Green Paper on Innovation* states that *"Innovation is at the heart of the spirit of enterprise: practically all new firms are born from a development which is innovative, at least in comparison to its existing competitors on the market. If it is subsequently to survive and develop, however firms must constantly innovate, even if only gradually."* In the context of this document, innovation is taken as being a synonym for **the successful production, assimilation and exploitation of novelty** in the economic and social spheres. It offers new solutions to problems and thus makes it possible to meet the needs of both the individual and society. [2]

According to *the OECD*, « An i*nnovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method inbusiness practices, workplace rganization or external relation.»* [3]

Innovation is synonymous with change and closely links to creativity. While creativity is the ability to imagine and see things other than they seem. The innovation is the proves of selecting, combining, fit together and application of best creative ideas into a reality, with other words into a marketable product or service. An innovative enterprise is one which responds the challenges, accepts change, undertakes new actions, develops new products and offers more efficient and user-friendly services, provides higher quality. Innovation goes beyond the technological advancement, because this alone does not guarantee the future

survival of a company. Innovation aims to anticipate market needs and offers higher quality products and services.

While innovation process is a complicated task for large companies, for SMEs it represents a real challenge. In most cases it is nearly impossible for them to tackle alone. According to an EU study on Innovation Management small companies often ignore that true meaning of innovation. "Very frequently, SMEs feel disconcerted when it comes to innovation. Many sense that they should change the way they run the companies, recognizing that they should add new technologies to increase their competitiveness, and feeling that their internal organization is not optimum for competing in current market conditions." [4]

Innovation is less a question of equipment and technology, it is rather a way of thinking, and looking at the operation of an enterprise and its relation with the surroundings. Innovation cannot be organised by Government decrees and legislative acts. Innovation comes from people - researchers, scientific experts, entrepreneurs, consumers and students. However these people cannot act in vacuum. Standing still and static is not anymore and option; products and processes can be obsolate and competitors from the distant part of the word could push out a firm from its current position.

SMEs must feel the innovative environment, in other words, the request that something is changing and they have to change, too. In all respects, public administrations dealing with innovation promotion and all organization dealing with R&D development should play an important role in creation of a favourable environment for innovation and continuously extend it.

Innovation is the precondition of any knowledge/based society. European needs more action and not just new slogans. The Lisbon strategy failed, but a new Lisbon Partnership for Growth and Job launched in 2005 and the Small Business Act (SBA) has been agreed.

2 The innovation process

In the society it is a much debated question wheather anyone can become a successful entrepreneur or does it require a certyin type of person with certain features? Does it require certain attributes they should inherited ? In other words successful entrepreneurs are born or made ?

Peter Drucker an Austrian-born American management consultant argued that the entrepreneurship is not a mystique. *"It is not magic, it is not mysterious and it has nothing to do with the genes. It is a discipline. And like and discipline, it can be learned."*

Entrepreneurship and **innovation** are Siamese-twins. Jeffery Timmons defined entrepreneurship as" the ability to create and build something from practically nothing". The entrepreneurship for the 21st century is about getting a new venture started, growing the venture, successfully harvesting it, and starting again». [5]

Entrepreneurship is a process of exploring the business possibilities and their implementation independent of available resources. Entrepreneurship means determination and creation of values, and their distribution for the benefit of individuals, groups and organization, summing up to the whole society. Entrepreneurship seldom provide possibility for getting reach, it is a long-term process of creation of values and cash.

The innovation FUNNEL channels:
For every 1,000 new ideas
100 have potential
10 get developed &
1 becomes success !

Managing Creativity and Innovation
Harvard Business Essential, 2003

Entrepreneurship has a dual character. It is considered as **science** and **art**. Science is organized knowledge. Any kind of science applies clear and scientific methods for development of the knowledge. Those this science has clear concept, theory and it is possible to obtain further accumulated knowldges from hypothesis, experiences and their analyses. An entrepreneur can learn many things such as business planning, market analyses, survey of competitors and accounting. What he/she is not able to acquire how to apply and adopt these knowledges, how to recognize and utilize the business possibilities, which belong to the category of art. [6]

The transition and emerging market economies in Europe and in the CIS countries often lag behind their more advanced market economies in terms of ketching up in innovation and especially in the process of commercialization of the R&D results. The modest government and private investment in research as well as week industry-academia links, underestimation of the innovative capabilities of SMEs by the large moltinational companies are the major obstacles to the development of innovation-driven entrepreneurship.

In the period 2008-2011, the *United Nations Economic Commission for Europe* organized several capacity-building events in order to identify and examine the major drivers and obstacles to the development of innovative entrepreneurship in the UNECE region with special emphasis on the transition and emerging market economies. Such events were held in Moscow (2008), Astana (2009), Kiev (2010) and Baku (2011). the UNECE collected and examined good parctices in reducing barries to boosting the innovation for enterprises. These practices were

summarized in a speical UN publication « Fostering Innovative Enterpreneurship – Challenges and policy Option ». [7]

2.1 The final goal of the innovation is to bring to the market new Factors influencing the implementation of R&D&T results

The final goal of the innovation is to bring to the market new products or introduce new process technologies or implement improved organizational methods. It is a close loop from idea born in the brain of the inventor and ending in implementation of this idea in practice.

The innovation process has number of stages starting from the laboratory research activities and ending with the appearance of the product in the market or implementation of the new process in the life. The major stages and actors involved are presented schematically in Figure 1. Each stage requires inputs of knowledge, skilled personal, using up equipment, times, material, financial and human resources. The first three stages from left to right include basic scientific knowledge, plan for new process and/or blueprint and initial prototype. All these activities we can summarize as R&D phase. This certainly should include premarket activities.

Only when we reached the last stage at the point when a marketable product or service appears, we can talk, that the innovation is achieved. This stage we call as commercialization one, and henceforth this is the starting point of another chain of events, which is called as diffusion. This results in widespread appearance of the new product or service on the market.

The Figure 1 represents a linear model of the innovation process. This is needless to say, that in practice the innovation process is rarely linear. There is also feedback between the stages as well as between the basic research and the diffusion one. Consumers starting to use the innovation often adapt or refine them. Figure 2 shows how the major actors interact in the innovation process. The process of commercialization of R&D results comprises many stakeholders. Their roles are summarized in Figure 3.

According to the UNECE [7] the main drivers of the innovation process include the following factors:

(i) The scope of **Research and Development**. This include the available stock of R&D&T institutions in the country, the number and qualification of research workers both in public research institutions and private company research departments, stock of available patents invented by the citizens in the country, indicators related to the

number of scientific publications and their citation index, the share of the GDP invested in R&D&T sector.

(ii) **Human resources** available in the R&D&T sector. The availability of highly qualified personnel depends on the **quality of education**, especially in the university education. This determined by the budget allocation by the Government. The average salary of the highly qualified persons determined the availability of these experts in long term in the country, or leaves the country in the hope of better salary and development of their personal carrier.

(iii) **Regulatory and institutional environment.** An enabling environment conducive to innovation based on transparent and accountable public spending and investment will support the innovation-driven entrepreneurship. This should include stable intellectual property right, transparent on innovation supporting tax administration.

(iv) **Network of linkages** between the various actor involved in the innovation process. These links are established between public and private organizations, R&D institutions and large enterprises as well as SMEs. Specials linkages have to be established between EU innovation support programs, national promoting agencies as well as stakeholders of the R&D institutions and enterprises.

(v) Utilization of **information and communication technologies – ICT.** Developed communication network including nation-wide Internet communication and mobile phone networks are the basis for stimulating business environment and provide support for enterprises.

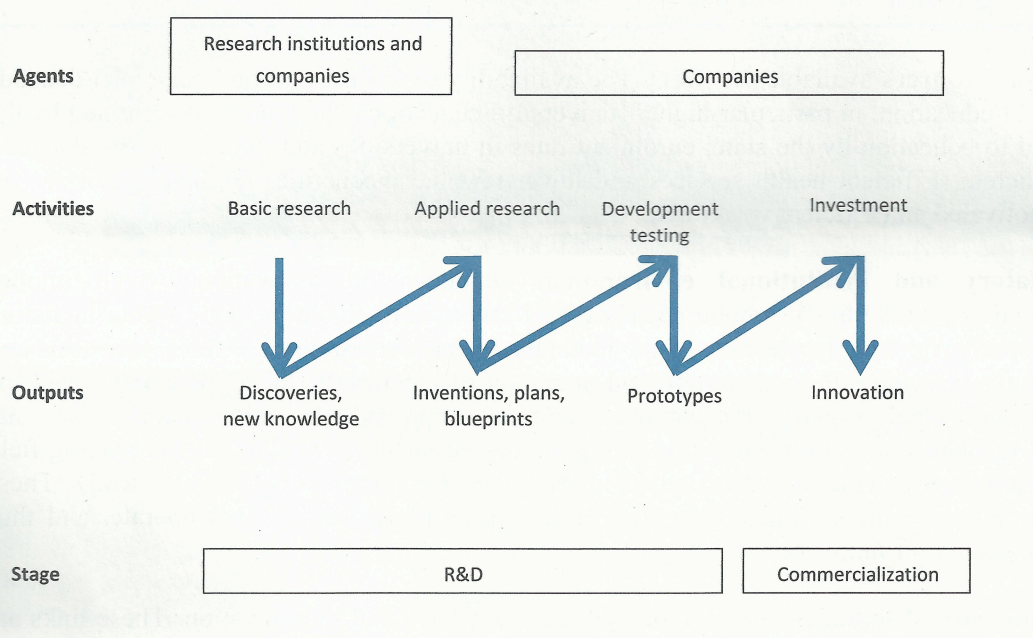

Figure 1.
Innovation process – stages and actors involved
Source: Christina Greenhalght – Mark Rogers: Innovation, Intellectual property and Economic Growth, 2010 [8]

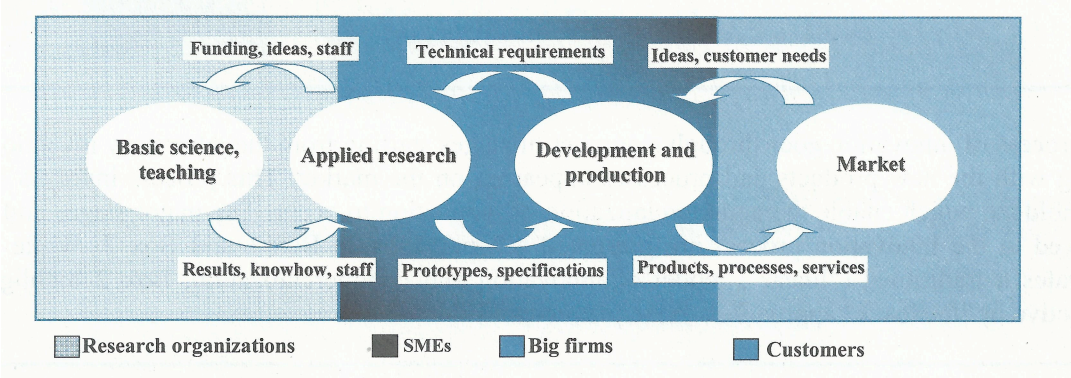

Figure 2
Innovation process – interaction between the major actors

Source: UNECE Secretariat, 2012 [7]

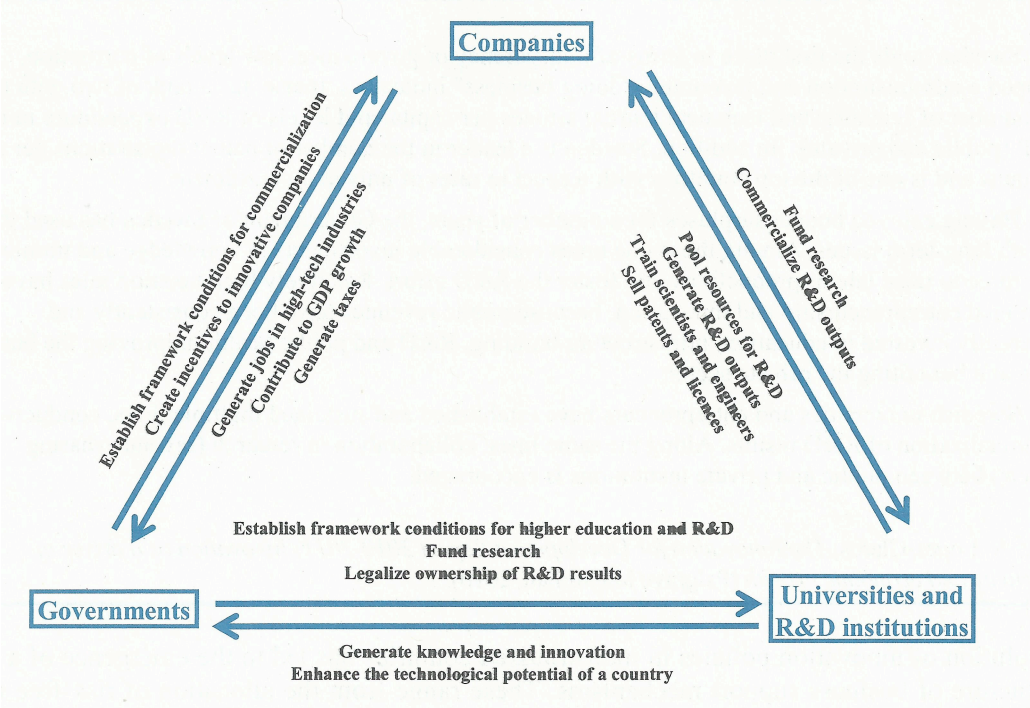

Figure 3.
The roles of major stakeholders in innovation process
Source: UNECE Secretariat, 2012 [7]

The Innovation Union Scoreboard 2013 gives a comparative assessment of the innovation performance of the EU27 Member States and the relative strengths and weaknesses of their research and innovation systems. The overall ambition of the Innovation Union Scoreboard is to inform policy discussions at national and EU level, by tracking progress in innovation performance within and outside the EU over time. Member States are analyzed by 8 innovation dimensions and 25 different indicators. [9]

Based on their innovation performance the EU27 countries are put into four development categories:

(i) Denmark, Finland, Germany and Sweden are the **Innovation Leaders.** The performaace of innovation leaders is 20% above the EU27 average**;**
(ii) Austrian, Cyprus, Belgium, Estonia, France, Ireland, Luxemburg, Netherlands, Slovenia and UK are the Innovation Followers;
(iii) Czech Republic, Greece, Hungary, Italy, Lithuania, Malta, Portugal, Slovakia and Spain belong to **Moderate Innovators** group ; and
(iv) Bulgaria, Latvia, Poland and Romania are **Modest Innovators.** The performance of modest innovators is below 50% of the EU27 average. See the Figure 4.

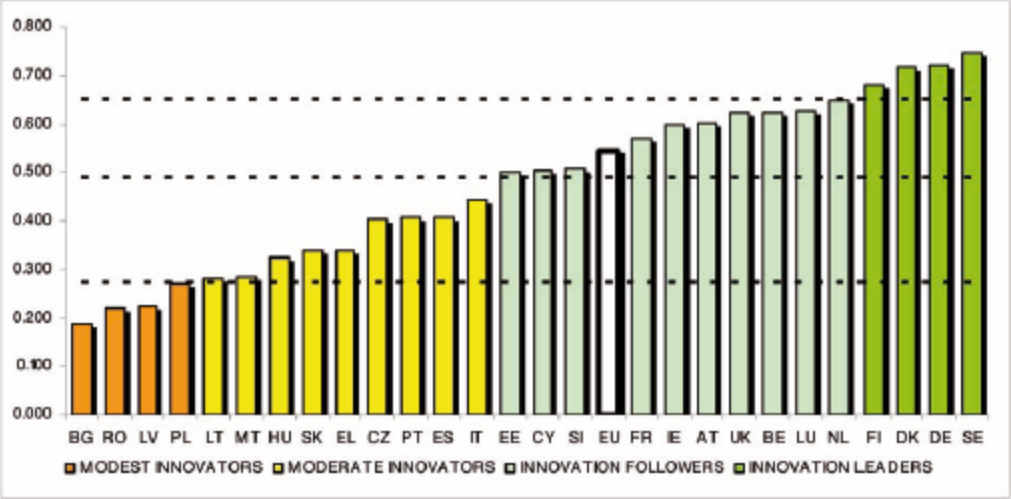

Figure 4
EU Member States` innovation performance

Note: Average performance is measured using a composite indicator building from 24 indicators from a lowest possible performace of 0 to a maximum possible performace of 1.
Source: European Commission, Brussels, 2013.

The European Innovation Union 2013 is the first edition reflecting the effect of the economic crises in Europe. The Europe 2020 Innovation Union flaghip initiative was launched in October 2010 aiming to improved Europe innovation performance (see later). Miost European innovation leaders and followers improved heir innovation performance between October 2010 and 2012. However moderate innovators performance has decreased in the Czech Republic (-1.5%), Hungary (-1.9%), Poland (-1.3%), Greece (-6%), Portugal (-4.9%), Malta (-16%), Romania (-5.1%) and most for Bulgaria (-18.7%). Ono ne site there are significant hopeful sign showing the light at the end of the tunell of the economic crises. However, prior to coming out of the tunell Europe gets bogged down due to the huge unemployment especially among the youth generation. [10]:

3 Problems faced by SME's in doing innovation in general and in Hungary

While many SMEs are flexible and have long relationships with customers and provide rapid response to technical and market challenges, they also faced many obstacles to innovation. The lack of adequate management capabilities, lack of financial and technical resources, lack of skilled workers, weakness in external

information, linkages and forein languages, difficulties in coping with government regulations, abuse of power of multinational companies in late payments, are the few factors, which limit the competitiveness of SMEs.

Scozzi, Garavelli and Crowston identified SMEs crucial problems in innovation as following [11]:

- Procedure neglect,
- Responsibility avoidance,
- Lack of process control,
- Management deficiencies,
- Problem framing and solving
- Lack of structure organizational memory,
- Lack of strategic vision (short-term),
- Change and conflict management,
- Communication across departments, Blame culture and
- Lack of structured communication (internal and external)

In Hungary the small- and medium-sized enterprizes play and important role in the national economy. According to the data of the Tax and Financial Control Authority – APEH – as of 2008 (from 2011 the National Tax and Custom Administration) 1.5 million enterprises – out of them 99.9% SMEs - provide a livehood of 69.6% of the total employees, create more than 50% of the GDP and provide one-third of the export. Unfortunately, one-forth of the registered enterprises are event not operating. The job creation of the SME sector and its innovation capability is essential to achieve the Government‘s growth objectives. The average size of the SMEs is smaller (3 persons as compared with the 5 persons in the EU-19 average) and their productivity is weak.

The dual character of the Hungarian economy partly with the large multinational companies and partly with exaggregated frittered away size-structure and relative lack of medium-sized enterprises results in low competitiveness on the international market and weak innovation capability. The share of the fast-growing companies – so called gazellas – is very modest

On the bases of the analyses of the Ministry of Economy and Transport (MoET) 15% of the SMEs belong the the fast-growing category (yearly growth exceeds 20%), which innovate, they are active in expernal markets, participates in value chains and networks. 65-70% of the SMEs are in average situation, which do not expect improvement, they have low performance and low qualification in human resources and employment. 15-20% of the SMEs are lag behing; they are either in start-ups or in declining phase.

According to a representative survey by the MoET in 2007, the relevance factors hampering the SME growth in Hungary are the following (on a scale from 0 to 100 is most important) [12]:

- High tax and social security burden 77
- Unpredictability of economic regulation 63
- Strong competition 56
- Not enough orders received 45
- Unfair competition 45
- Clients defaulting on payment 35
- Shortage of capital 31
- Difficulties in purchasing 13
- Outdated, not modern existing capacities 12
- Lack of credit 12
- Shortage of labour 9
- Other impeding factors 19

Némethné Gál Andrea analysing the competitiveness of the Hungarian SMEs explored the following factors hampering the performance and competitiveness of these enterprises as following [13]:

- Low efficiency of the national development and support programs,
- Problems of the regulatory environment,
- Stagnating and/or deteriorating macroeconomic conditions,
- Unfavourable financing structure: unsufficient own and private capital as well as low share of external sources,
- Small-scale spread of cooperating networks, and
- Low R&D&innovation activity of the enterprises.

In the analyses by the Author the main problems in the operation and growth of the Hungarian SMEs can be summarized as following :

(i) regulatory problems,

(ii) extremaly high and not trasparent taxation system,

(iii) difficulties in access to financing,

(iv) chain debt and abuse of financial power of the big multinational companies,

(v) knowledge related problems,

(vi) cooperation of SMEs in the field of innovation is rather weak,

(vii) the cooperation of SMEs with universities is very alarming, and

(viii) existing serious infrastructural deficiencies.

The current Hungarian Strategy for the Development of SMEs for 2007-2013 approved on 10 October 2010 oriented to improve performance of the SME-sector in the following fields:

- promotion of business environment that encourages entrepreneurship and SME development,
- mobilisation of human resources for entrepreneurship and innovation, especially through programmes for entrepreneurship education,
- broadening SME access to finance and improving financing for entrepreneurship and SME growth,
- reducing barriers to access to international markets and encouraging international co-operative agreements, especially in the area of innovation, and
- development of an evaluation culture (involving amd necessary respources and tools) concerning entrepreneurship and SME policies and programmes.

The most important factor humpering the operation identified by SMEs in Hungary is the high tax and social security burdens. Fiscal presure on SMEs is very high, the country is at low 118th place in the overal runking of the World Bank doing business study (Doing Business 2013).

4 New tasks for enterpreneurship in the European Union

In the series of consultation on the future of the European Union, the European Commission Vice President *Antonio Tajani*, responsible for entrepreneurship and industry, said: "Europe lags behind its competitors in entrepreneurial attitudes. Yet at the same time we know that SMEs are the biggest source of new jobs and related growth. Therefore, it is crucial that Europe increases its appetite for entrepreneurship and then supports its would-be and new entrepreneurs in creating

new businesses. A European Entrepreneurship Action Plan is needed to unleash entrepreneurial potential. Please let us know your ideas - we count on them." [14]

In term of entrepreneurship Europe lags behind the United States. In the time of economic crises Europe needs more entrepreneurs. Actually only 11% of the European citizens are entrepreneurs. This proportion in the US is 55%. According to a statistical survey 45% of the European citizens would like to be their own boss if they could. The difference in entrepreneurial spirit is not because European are less entrepreneur, rather than because the administrative, structural and cultural factors are different. At the same time SMEs are the biggest source of new jobs and wealth creation. An updated European Entrepreneurship Action Plan is needed to address this issue.

In order to overcome the difficulties, in 2012 the Commission has been launched a consultation and has special interest to get suggestion in the following issues:

- Unleash entrepreneurial potential;
- Remove obstacles to entrepreneurial activities;
- Support entrepreneurs in business starting up; and
- Help entrepreneurs to face challenges, particularly during the first year of life of the business. [15]

5 Europe 2020 Strategy

Europe 2020 is the EU's growth strategy for the coming decade. In a changing world, we want the EU to become a

- smart,
- sustainable and
- inclusive economy.

These three mutually reinforcing priorities should help the EU and the Member States deliver high levels of employment, productivity and social cohesion. Concretely, the Union has set five ambitious objectives - on *employment, innovation, education, social inclusion and climate/energy* – to be reached by 2020. Each Member State has adopted its own national targets in each of these areas. Concrete actions at EU and national levels underpin the strategy. Europe has identified new engines to boost growth and jobs. These called as flagship initiatives. Within each initiative, both EU and national authorities have to coordinate their efforts so they are mutually reinforcing.

Smart growth

- Digital agenda for Europe
- Innovation Union
- Youth on the move

Sustainable growth

- Resource efficient Europe
- An industrial policy for the globalisation era

Inclusive growth

- An agenda for new skills and jobs
- European platform against poverty

Europe has no shortage of potential. It has world leading researchers, entrepreneurs, R&D institutions, traditions, creativity and diversity. Many world-changing innovations can be traced back to Europe. in a repidly changing global economy it faces weaknesses as well like

(i) to much fragmantetion and parallely acting institutions duplication eachother activities;
(ii) unsatisfactory framework condition like to high costs in defeting the intellectual property rights, ineffective use of publica procurements, etc; and
(iii) usufficient rsources and investment in R&D.

The Innovation Union is key to achieving the goals of the Europe 2020 strategy for a smart, sustainable and inclusive economy. With over thirty action points, it aims to improve conditions and access to finance for research and innovation in Europe, to ensure that innovative ideas can be turned into products and services that create growth and jobs [16]. The target the Innovation Union according to recent estimates is of spending 3% of EU GDP on R&D by 2020 could create 3.7 million jobs and increase annual GDP by close to €800 billion by 2025. Realising it will require the full and sustained support of the European Council and the European Parliament, Member State governments, businesses, public authorities, researchers and the public.

As the baby-boom generation retires in the EU, the population of over 60 year is increasing twice as fast as before 2007, i.e. by some two million people a year. By 2050, the number of people over 50 year will raise by 35% and that over 85 year will triple. This is a challenge both for the EU as well as its member States how to cope with this forecast. This is a serious task for cooperation int he whole EU-area in order to achieve the target and not to fail again like the Lisbon strategy.

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