Innovations Financed by Polish Enterprises from SME Sector

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Abstract

Innovation, the process of their inventing and implementing, is now one of the most important activities of the enterprise. Nowadays, innovation is not only forced by the continuous technological development, but also by the demands of customers, who constantly demand new products or services. Polish companies from the SME sector, realize that innovation can even influence their further development, gaining market share and further activities. However, unlike Western companies, Polish businesses continue to face difficulties related to financing innovation. This article briefly presents the main problems faced by Polish firms, seeking to raise funds for the financing of innovation and what help is most desired by them.

Key words: innovation, enterprise, finance, SME sector

1. Introduction

Innovation, according to Peter Drucker, is a special entrepreneurs’ tool, which helps to transform any change into an opportunity to start a new activity or to offer new services\(^1\). Drucker thinks that innovation can infiltrate into all activity areas in the enterprise, also, he proposes to treat the innovation as a system actions, leading to changes identification and systematic analysis in regards to used them to creating another innovations\(^2\). Another scientist, Ch. Freeman writes that “we can talk about the innovation at the same moment, when it will be sold for the first time, meaning- it become a subject of the trade\(^3\).

The “innovation” term have been introduced to economic science by J.A. Schumpeter at the beginning of the previous century. According to him, innovation should be understood such as\(^4\):
- Entering into a production process new or newly modified products,
- Introducing new or newly modified production method,
- Creating a new market,

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\(^1\) P. F. Drucker, „Innovation and entrepreneurship”, Elsevier, Oxford 2007, s. 3
\(^2\) P. F. Drucker, “Innowacja i przedsiębiorczość”, Emka, Warszawa 2004, s. 42-149
\(^3\) J. Liebenau, „Banking on Innovation”, A Springer Company, United Kingdom 2009, s. 16
\(^4\) A. Pyka, „Elgar Companion to Neo-Schumpeterian Economics”, MPG Books Ltd, United Kingdom 2007, s. 345
- Using the new form of selling or purchasing the existed products,
- Using the new raw materials or half-products,
- Introducing the new process organization,

From the statement above, we can assume that the innovation term might be very wide and covers all changes, including technical and organizational, which might occurred in any organizational units.

The “innovation” term may have another dimension – in a business practice, many companies understand the innovation on its own way. These definitions are the results of company’s adopted strategy. For example – in the Volkswagen Group, innovation is defined as a fulfilling the customer’s requirements through the new solution development, which bring a significant benefits. The results of such an approach might be a new product or the procedure.

Innovation, also, can be seen as a process, whose result is innovation indeed. The company’s unknown product is an innovation’s result, when it will be used in a practice, it become an innovation itself.

In the literature we can find a very interesting view on the innovation’s sources problem, it is being presented by E. von Hippel. His conception is called “innovation’s functional sources” and assumes that during the developing and realization innovation process, many, different units are involved, which are connected with each other and they reach certain benefits (economic, technical or market). In the innovation process the products’ producers, final users, suppliers and any other parts are involved. In the cooperation frame, all parties exchange all the information related to research and development process, marketing and technical information as well. All this activities might be conducted in a formal or informal way either.

2. Innovations process

The innovations process definition is understood as a creation or innovation idea generation, besides of what it regardless to, and then creation, design and first realization. The innovation process covers the time interval from the first conception to the first realization, however, it does not need to eliminate the works, undertaken before the first conception and after the first realization. This process means material and non-material changes of all elements in the company. And the basic event, in a such understand process, is the implementation of new product or solution.

Either way, McGowan treats the innovation process as any creative activity, in which, more pressure is put on idea implementation. It is continuous process, starting from the opportunity or need to fulfill detection, and ends with the decision to implement the idea and its realization (O’Connor, 2010).

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5 N. T. Snyder, D.L. Durate, „Strategic Innovation”, Jessey-Bass, San Francisco 2003, s.5
6 W. Janasz, K. Kozioł, Determinanty działalności innowacyjnej przedsiębiorstw, Polskie Wydawnictwo Ekonomiczne, Warszawa 2007, s.18
The innovation process covers the following stages:\cite{Francik,Piatecki}:
- Basic research,
- Applied research,
- Development works,
- Implementing works,
- Innovation phase,
- Dissemination,

From the enterprise’s point of view, McGowan conception about the innovation processes building is interesting. McGowan has divided the whole process into 12 phases, beginning from the problem identification or implementation opportunity, evaluation and the best idea improvement when is necessary. At the same time, all these phases interpenetrate, condition and there are many linkage between them. It causes that its separation is very often not possible to conduct. Not every innovation finds imitators at the end. In that case, innovation process ends on the first time innovation use.

3. Innovation in SME enterprises

Due to the close relationship between competitiveness and innovation, the issue of pro-innovation action and strategy building innovative solutions including, in particular, should be of interest of Polish companies. Ability to compete effectively in the long term requires the use of higher-order competitive advantages, and these provide innovation only.\cite{Piasecki}

The study shows that Polish companies have a number of advantages that enable them to effectively compete in both markets - domestic and foreign. But their competitive potential is often much worse than the potential of foreign companies. In addition, a lot of Polish companies is much behind in terms of modern technology used by them, this is a result of too low expenditure incurred on research and development. According to J. Ladysz scale delays in this area is huge, which best presents the value calculated for the Polish rate of innovation, the value of which is 10 times less than the value calculated for OECD countries\cite{Ladysz}.

In the past, few years, Polish companies systematically have maximized the value of carried out investments, but did not translate into a simultaneous increase in the level of innovation. Comparing the Polish companies to companies from other European countries and developed countries, it can be seen that the level of innovative activity of Polish enterprises is much lower.

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Figure 1. Targets, on which companies allocate the acquired funds.

<table>
<thead>
<tr>
<th>Target</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>New building purchasing</td>
<td>46%</td>
</tr>
<tr>
<td>Acquiring the intangible assets</td>
<td>33%</td>
</tr>
<tr>
<td>Research &amp; development laboratories</td>
<td>10%</td>
</tr>
<tr>
<td>Restoring the business liquidity</td>
<td>9%</td>
</tr>
<tr>
<td>Procurement of raw materials</td>
<td>8%</td>
</tr>
<tr>
<td>spare machines and tools purchasing</td>
<td>7%</td>
</tr>
<tr>
<td>New equipment of purchase</td>
<td>5%</td>
</tr>
<tr>
<td>Restoring the business liquidity</td>
<td>4%</td>
</tr>
<tr>
<td>Procurement of raw materials</td>
<td>3%</td>
</tr>
</tbody>
</table>


As it is seen from the figure above, most of the acquired, by enterprises, funds are spent on purchasing: new equipment, tools, machines and even new means of transport. Still on the first place, is restoring the liquidity, but such a high part, means that, almost 40% of SME companies, had some problems with their liquidity. Or, to get liquidity back or even gain an independence is a major problem of them. The smallest share has “takeovers of other companies” – it means, probably, that polish companies from SME sector are not interested to takeover other firms. The above figure show the overall structure of expenses made by companies, and it is visible that expenses on innovations have one of the smallest share. Can be concluded here, that or companies have their own funds, which they can use to invent, implement or introduce the innovations, or innovations are not so important for polish firms.

Figure 2. The difficulty degree of innovations financing.

From the above figure, it can be assumed that most of the companies marked, that is was very difficult to acquire funds to finance the innovations. There are many ways to acquire necessary funds, but the most popular is to write a project and send on contest. And most of the firms, acquire funds using that way. From the above figure, it is seen, that less than 10% of firms, said, that they had almost no many ways to acquire necessary funds, but the most popular is to write a project on innovations. Usually the owner or boss who tries to gain some special funds, which can be spent simply to small to create a special unit to acquire funds. In these companies, is funds. The rest, were micro and small companies (up to 50 employees), so they are, but those 10% were the companies from the medium sized enterprises (up to 250 employees), and most of them had a special office, which is taking care about the funds. The rest, were micro and small companies (up to 50 employees), so they are, simply to small to create a special unit to acquire funds. In these companies, is usually the owner or boss who tries to gain some special funds, which can be spent on innovations.

![Figure 3. Difficulties in innovations financing.](image)


As it can be seen from the figure above, almost 80% enterprises have marked that very complicated procedures is the biggest problem, occurring during financing innovations. This is due to the fact, that most of the capital is acquiring from EU projects and funds, and to get access to this kind of source – companies must fill a lot of, very complicated forms, fulfilled strict requirements and go follow procedures, which are very detailed and complicated. But, from the other hand, the complication of these procedure assure that there will be no mistakes or none, who does not should receive the money, will receive them. The purpose of this complication is some kind of caring of the sources of money. On the second place, companies have marked “unclear criteria” and “high risk of project fail”. More than half of the companies think that unclear criteria (how to acquire sources, what kind of forms should be filled in, where or when to send them) is a big difficulty to get the money. It is because, they were written with complicated language, using the words which are not popular in use. And the high risk of project fail, innovation itself is a very risky thing – company never knows if the innovation will be succeed or fail, will the company get new customer or increase

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its market share, or will lose the money, waste and customers. But the smallest difficulty is lack of partners wanting to share costs, it means, that companies, quite often, decide to cooperate together with innovations, making the risk smaller than working separate.

**Figure 4. The kind of help, which is key in the process of innovation implementation**


It is now surprise, that the most common source, used to acquire money, are the EU projects and funds. It is because, they are very big sources of money, and almost every company may try to get funds from this kind of source. Also, the government’s help has a major role, exemptions or reductions on taxes, can help companies to save or collect the funds, which will be used for innovations. Also, preferred credits and loans, play an important role with innovation financing. But, and this can be a small surprise, establishing special economic areas, is not kind of help, which companies are counting for. Also, national information actions or advising is treated as a help with no meaning at all. Assuming, it can be said here, that pure “financial” help from EU, national government or banks are the most important help for the companies, trying to invent or implement some innovations.

**4. Conclusion**

Innovation, now constitutes a very important aspect of almost every enterprise. Even in the case of one-person business, providing simple services, the implementation of it into his activity can greatly affect the development of the company. Innovation is the key factor that affects the success of the company and
results in an overall increase in competition in the current era of globalization. Finding and implementing the changes that are synonymous with innovation not only allow the company to survive in an ever changing environment, but also enable its future expansion. Therefore, innovation should be considered in the context of one of the main strategic goals of the company - sustainable and continuous development of the company's competitive advantage, which contributes significantly to the success of the enterprise market. So far, polish enterprises are far away behind the companies from “Old Europa”, in both, with implementation innovations and obtaining financial help to introduce them. But, every year, the share of enterprises, trying to get some funds in order to introduce innovation, is getting bigger. This mean, that in the near future polish enterprise will achieve the same step of innovation as companies from “Old Europe”, so polish market will be more competitive, with higher productivity and bigger profits. And this higher number of companies, acquiring fund to financing innovation show that all these, occurring, difficulties can be solved and are possible to deal with them.

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