

## HOW TO IMPROVE INNOVATIVENESS OF SMALL AND MEDIUM ENTERPRISES

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*Small and medium enterprises cannot avoid the global economy and its demand for innovative business as a precondition for competitiveness. Given their small size and related pool of professionals, small and medium enterprises need to work very hard on their staff's innovativeness and related personal traits. Making a small and medium enterprise successful must be considered as an invention-innovation-diffusion process that tackles both the businesses mix of the given size, and the small and medium enterprise as an entrepreneurial achievement. Thus, all preconditions concerning both the content and the process of innovation must be considered, which requires the requisite holism and, therefore, systemic rather than one-sided thinking/behavior of the usual specialists. Hence, values/culture/ethics/norms of owners, entrepreneurs, managers and their co-workers must also be innovated along with their knowledge. Then, interdisciplinary creative cooperation can result from cultural and professional differences.*

### 1. THE SELECTED PROBLEM AND VIEWPOINT

An organization is not only a business system (BS), which it is when the selected viewpoint of dealing with it exposes its business attributes. Called with different names (such as firm, enterprise, company), BSs became very influential institutions of the modern age (Schumpeter, 1934; Kuratko, 2008). Since the great majority of BSs are small and medium enterprises (SMEs), it is

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almost impossible to reach any goal in society without engaging also the SMEs (Hebert, Link, 1989; Fink, Kraus, 2009). Currently, in Europe, about 99 % of all enterprises are SMEs, employing beyond 50 % of employees (Potocan, Mulej, 2007; Potocan, 2008). Demands over SMEs, too, have developed from efficiency by synergetically adding quality, range, uniqueness, and sustainability in recent decades (Collins, Porras, 1994; Collins, 2001; Potocan, Mulej, 2007). This requires innovations all the time.

Innovation is defined as every novelty found beneficial in the experience of its users (Affuah, 1998; Rogers, 2003; EU, 2006). Or, in other words: Innovation = invention + commercialization (Affuah, 1998).

Business practice proves that innovative business (= business style based on innovation rather than routine) tends to yield much more value added than a routine-based one. It is especially crucial as a way out of the economic crisis of 2008. Therefore, the modern BSs face two important challenges, at least: how to satisfy demanding customers' requirements, and how to make their own business requisitely innovative to make customers happier with it than with competitors' supplies.

The synergy of findings from the research of both challenges says that one-sided professionals / humans fail to perceive that success depends on systemic thinking based on interdisciplinary creative cooperation. It is helpful to develop and maintain the innovativeness and creative cooperation of all organizational members.

Therefore, SMEs must create and implement a requisitely holistic development like or even more than the bigger enterprises. Meeting these requirements depends on influential humans, not only on the institutional order alone. Thus, most SMEs must innovate their management style, including the application of the ethics of interdependence within the organization, in the market, and in society at large. Thus, it makes sense to consider the human part of preconditions of the innovative business in SMEs as BSs.

However, if we wish to understand the human part, we must take into consideration the mutual interdependence and synergetic entity of personality traits, professional cultures, job cultures, department cultures, cultures prevailing in organizations, local communities, regions, nations, and beyond their borders. In this framework, it is the ethics of inter-dependence, which provides (also) the bases for innovativeness of BSs, including SMEs.

We discuss, here, the issue of improving the level of innovativeness on the basis of knowing: the role and the meaning of contemporary economics, i.e. innovative working and behavior of SMEs, possibilities to assure human bases for innovativeness, bases and important characteristics of human innovativeness in SMEs, and relations between improving the human part of businesses and level of innovativeness in SMEs.

## **2. WHO MAKES SMEs ENTREPRENEURIAL BUSINESS SYSTEMS?**

The basic problem selected in this contribution lies in the fact that a BS of any type “per se” is an empty legal shell (and/or organizational structure). That is also true of SMEs. It is the owners (individually or in teams) that define the SME’s goals and operations (as a process of finding and exploiting business opportunities) that make their SME efficient, effective and successful, with the help of their managers and co-workers, of course. All of them must be both entrepreneurial and managerial characters to succeed (Casson, 1982; Hebert, Link, 1989; Prigogine, 1997; Affuah, 1998; Baumol, 2001; Fink, Kraus, 2009).

A SME as a BS is a product of owners’/managers’ endeavor to exploit a business opportunity and to capitalize on it. Management of SMEs is a complex process, and the entrepreneur who runs it has to play many different roles (Magretta, 2000; Lawrence, Weber, 2007). There is no guarantee that the entrepreneurial efforts will be allocated in a way that matches the innovative and constructive image we usually have of the economic entrepreneurship. Not every entrepreneurship is aimed at development; it can also be unproductive or destructive (Baumol, 1990; Baumol, 2001). Unproductive entrepreneurship refers to the performing of entrepreneurship activities that enrich the entrepreneur, but do not increase the wealth of the society of which he or she is a part. In some cases, entrepreneurs may even play a destructive role (apart from the entrepreneurship of military dictatorships, destructive wars, etc.), especially when they obstruct the dissemination of technological knowledge and other inventions and innovations.

The ideal enterprise of this decade is a requisitely holistic one. SMEs, too, must achieve synergy of efficiency, quality, range, uniqueness, and care for humankind’s natural environment (= preconditions of human survival). Thus, it holds true that the existence and development of SMEs in the frame of contemporary globalization should depend increasingly on their capability of requisitely holistic contribution to development in their business and social environments. Hence, the behavior of owners/entrepreneurs/managers that are

the core of SMEs is to be examined more closely, and perhaps also supported with new insights and suggestions.

In working on their development, entrepreneurs encounter a number of problems. Firstly, they must define their basis for the understanding of modern economic conditions (e.g. globalization). In the next step, entrepreneurs define starting points and characteristics of their work in the frame of globalization. Finally, they define their own place in working on their SME's development. Their success depends both on their knowledge and their values/culture/ethics/norms (Rhinesmith, 1999; Katz, 2003; Porter, Kramer, 2006; Huczynski, Buchanan, 2007; Potocan, Mulej, 2007) (See Table 6). How can SMEs successfully enter the market game under modern conditions?

### **3. GLOBALIZATION AND MANAGEMENT INNOVATION IN ENTREPRENEURIAL SMEs**

Globalization no longer allows for routinism, like a long-term stability used to (Magretta, 2000; Potocan, 2005; EU, 2006; Porter, Kramer, 2006; Lawrence, Weber, 2007; Potocan, 2008). Therefore, the new bases of a modern entrepreneurship, including SMEs, may include serious novelties aimed at becoming management innovations such as:

- SMEs' owners must be very entrepreneurial and innovate their operation to improve their SMEs' competitiveness by permanently creating and selling new products and services, which must become innovations.
- Entrepreneurial SMEs must create their operation globally, and act locally; they need direct links with their end users, to know both their market and the broader consequences of their action in time.
- Transition from the commanding hierarchy to the "process-based" specialization and interdisciplinary creative cooperation is of special importance in order for a SME to activate capacities of every member.
- There is a growing need for the interdisciplinary capacity of entrepreneurial SMEs (e.g. systemic thinking and behavior, inter-cultural capabilities and knowledge, permanent education and training, formation of personal standards of ethics of interdependence and the standards of entrepreneurial behavior, capacity of anticipation based on a broad interdisciplinary cooperation, cooperative and team work capacity).

For these reasons, entrepreneurial SMEs must innovate their work process to meet the newly emerging market conditions. They must create a set (better: a dialectical system) of new goals and new innovative behavior for their own work (Rhinesmith, 1999; Potocan, 2002; Rogers, 2003; Potocan, Mulej, 2007). The basic tasks for entrepreneurial SMEs to be competitive under globalization include, we think, the following (See for details: Mulej, 2000; Potocan, Rebernik, 2001; Potocan, 2002; Rogers, 2003; Mulej, 2007; Potocan, Mulej, 2007; Mulej, 2008):

- A timely and therefore anticipatory and requisitely holistic/systemic formation of the entire concept of the SME and its competitiveness, which will be created on the basis of co-operation between all partners of its value chain – both the current and the potential ones, and institutions from its environment. Such a view can make the future operation equally-footed, cause co-operation and motivate creativity.
- Anticipation of changes in the industrial dynamics, and the resulting SME's adoption and adaptation of available and potential resources. The operation of the SME will, therefore, be oriented mainly to the innovation of the already existing operation and to the formation of new possible directions of further development. The optimization of available resources will be replaced by the efforts to accumulate and innovatively use the SME's (potential) resources. Additionally, it will be necessary to anticipate synergetic effects of the use of resources together with the competitors, suppliers and/or buyers and final customers.
- Creation of a flexible operation, which will enable, on an anticipatory basis, a (re)configuration of resources to suit to the SME's new possibilities of operation - market, and other challenges. The provision of the SME's capability of such a (re)distribution of its resources is based on its fast learning, requisitely holistic understanding of "new society and economy" (where the 'limits' and restrictions are often fictitious and virtual) and the formation of a learning and innovative SME behavior.
- Development of the SME's capability of global operation. Depending on their industry and vision, many SMEs must create their operation globally and locally at the same time and thus establish their relations with buyers, suppliers and other partners. The SME's business cannot be good enough if it is based on the real-time data only; the rapidly and permanently changing social and economic environment requires a requisitely holistic anticipation of one's future to be the basis of the current business decision-making and acting.

Entrepreneurial SMEs in the new economic conditions, must, therefore, redefine their goals and tasks, rethink areas of their own work, and innovate the characteristics of their own operation. Thus, they can make it a fundamental source of the SME's potentially higher competitiveness and consequently of their SME's profit, which is high enough now and does not cause danger to the future.

In which way can entrepreneurial SMEs improve innovativeness? Theoretical cognitions and our work experience indicate that the innovation of human working is the least used and most promising action.

#### **4. APPROACH TO INNOVATION OF HUMAN WORKING IN SMEs**

Entrepreneurial humans support innovation. Though, entrepreneurship can be considered from different viewpoints as synergy of the following meanings:

- A legal feature, i.e. ownership of enterprises, such as family ones (Mulej, 2007; Mulej, 2008),
- An economic feature, i.e. searching for, creating, and using new business opportunities to make innovations (Schumpeter, 1934; Potocan, Rebernik, 2001; Davila, Epstein, Shelton, 2006), or
- A psychological and sociological attribute of the entrepreneur as a person (Dyck, Mulej, 1999; Potocan, 2002; Basadur, Gelade, 2006).

Hence, the above figures about SMEs mean that about 40 % of the adults in a society must be entrepreneurial persons to make enterprises economic innovative rather than only legal entities, called enterprises. This percentage must be achieved by innovation (as a process) of human values (See Table 6), which will not be a novelty yielding no benefit to its users, but an innovation (as outcome).

Figures from the research on the diffusion of novelties aimed at becoming innovations (Affuah, 1998; Lester, Piore, 2004; McGregor, 2006) include, into rather innovative recipients of novelties, only about 18 % - 30 % of all adults, while in e.g. Slovenia this figure is lower – i.e. only 20 % (Potocan, Mulej, 2007; Mulej, 2008). This means that new concepts such as economic entrepreneurship replacing routine-loving behavior (including employment without a lot of own responsibility) are difficult to implement.

On the other hand, both scientists and world top politicians found it urgent to declare innovative development as an only option for the entire humankind to survive – given the lack of remaining natural preconditions for humankind to survive. Both groups of change agents – those concerned with SMEs as economic enterprises and those concerned with innovativeness as the only way of humankind’s survival – have obviously not done enough on making the emergency recognized by all influential persons and organizations. They have not considered that their scientific findings and political declarations should be considered inventions that should become innovations. This requires the invention to be considered in terms of a requisitely holistic work (Mulej, Kajzer, 1998; Dyck, Mulej, 1999; Mulej, 2000; Mulej, 2007).

Tables 1 - 4 should no longer be neglected or unknown. The approach must be requisitely holistic for humankind to have a secure future with no monopolies and unemployment (against which SMEs work) and with a healthy natural environment.

*Table 1- The selected level of holism and realism of consideration of the selected topic between the fictitious, requisite, and total holism and realism (Mulej, 2007)*

Fictitious holism/realism (inside a single viewpoint)	Requisite holism/realism (a dialectical system of essential viewpoints)	Total = real holism/realism (a system of all viewpoints)
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One-sided attempts of perception, thinking, decision making, and action are normal with the normal specialists, if they do not want and/or know how to co-operate with other specialists who are different from them, and make therefore oversights and finish in fictitious holism causing mistakes. Owners, entrepreneurs and managers of SMEs are often quite close to this danger: they do not have many co-workers; they have often established their own SMEs because they had no other chance to survive after losing their jobs as employees (Mulej, 2000; Katz, 2003; Nussbaum, Berner, Brady, 2005; Mulej, 2008; Fink, Kraus, 2009).

Often, this means that they are very good in a technical profession, on which they intend to live, with full right, but less good or even completely uneducated in running a SME (Mulej, 2000; Nussbaum, Berner, Brady, 2005; Mulej, 2007). An entrepreneur produces an enterprise rather than a product; his professionals produce the product as a part of his/her basis to produce a SME, in the first place (Barabba, 2004; Chesbrough, Vanhaverbeke, West, 2006; Glor, 2006).

Table 2. Law of requisite holism in some details (Potocan, Mulej, 2007)

<b>Approach to dealing with an object as a topic of thinking, etc.</b>	One-sidedness by a single viewpoint	Requisite holism by co-operation of all essential professionals and only them	Total holism by consideration of totally all viewpoints, insights from them and synergies of them
<b>Type of approach</b>	(Too) simple	Requisitely simple	Very entangled
<b>Type of system</b>	Single-viewpoint based system	Dialectical system	Total system
<b>Attributes of object included in system</b>	(Very) few	All essential	All
<b>Result of approach</b>	Fictitious holism (in most cases)	Requisite holism (good in most cases)	Total holism
<b>Focus made possible</b>	(Too) Narrow focus (in most cases)	Requisitely holistic focus	Lack of focus
<b>Number of professions</b>	One single	Requisitely many	Literally all
<b>Type of work</b>	Individual	Mixed team of requisite and different experts	All humankind in co-operation
<b>Consequences</b>	Complex due to crucial oversights, dangerous	No problem due to no crucial oversights	Simple due to no oversights
<b>Availability</b>	(Too) Frequent in real life	Possible in real life	Not possible in real life

In the current economic circumstances, SMEs too must obviously be viewed as inventions that are supposed to become innovations, not only SMEs' products. All influential stakeholders must be persuaded in a communication process for the transition from invention to innovation to happen (we explain this process in some detail in the next chapter).

Hence, here appears the problem of understanding the reality and with that the need for systemic understanding and the researching of reality (e.g. in our case, about the transition from invention to innovation).

In modern conditions, the buyers' market prevails. Therefore, innovation must be a permanent result of any organization trying to survive or even prosper in the market (Collins, 2001; EU, 2006; Glor, 2006; IBM, 2006; Potocan, Mulej, 2007). Thus, organizations, including SMEs, must run their business as an innovative business (Mulej, 2000; Potocan, 2002; Potocan, 2005; Mulej, 2007).



Innovative business can be simply defined by the following (interdependent!) five points:

- In principle, every cost is unnecessary, avoidable. In reality, it is so if we work smarter, not harder, and create innovations.
- Today, every product and process becomes obsolete, sooner or later. That is why we must know their life cycles, do research, do development (connecting research results with the daily needs and practices), create other inventions and make from them innovations as new, useful bases of survival, on a continuous basis.
- Survival and therefore both good and poor work is everybody's business. Nobody, neither the superiors nor the subordinates, are entitled, in their own life reality, to be irresponsible and unmotivated for innovation.
- Therefore, let us continuously, all the time and everywhere, look for possible novelties. Only a small portion of them may become inventions (= new, perhaps making sense and potentially useful ideas). From some of them, by (formal or informal) research and development, sometimes something both usable and new might be created, a potential innovation. Customers will accept only a fragment of them as useful and worth paying for, hence making a benefit to both customers and suppliers, therefore deserving the name of innovation.
- The entire business policy and practice is innovation-oriented, not just a fragment of it.

A further part of the essence of the innovative business is that the five points of its definition no longer apply to the producing part of the organizations only, but also to all activities and all parts of life in all organizations. SMEs are not exceptions. This makes an innovative society.

The effort must be broadly disseminated and permanent because the pressure of competitors is permanent and for competitiveness, the quality must be systemic. This includes surpassing the customers' expectations in terms of price, quality, range, uniqueness, and environmental care, as a dialectical system (Mulej, Kajzer, 1998; Mulej, 2000; Mulej, 2007; Potocan, Mulej, 2007). It is starting to include social responsibility, too. The systemic quality is a demanding requirement of the modern market, which is impossible without continuous innovation. These demands are complex enough to require systemic thinking. More information about bases of systemic thinking is shown in Table 3 (Mulej, Kajzer, 1998; Mulej, 2000; Mulej, 2007).

Therefore, a practical transformation from a one-sided and routine-loving practice to a systemic/innovative practice in the daily experience of organizations, including SMEs, can hardly be attained if there is no or poor interdisciplinary co-operation.

In the case of innovative business, it includes technological and marketing researchers and developers, and all professions on the shop floor and in other operation offices, as well as everyone with whom they connect to learn and develop more (Huston, Sakkab, 2006; McGregor, 2006; Daghfous, 2007). All of them are interdependent – needing each other and needed by each other because they are complementary to each other with some parts of their attributes.

The invention-innovation process can, in terms of contents, be defined as an entity made of discovering and formulating new ideas and of elaborating them in inventions, suggestions, potential innovations, and finally innovations and broadly diffused innovations becoming a beneficial routine for a period of time. Later on, a new innovation replaces the previous one (for details see: Mulej, 2000; Mulej, 2008).

*Table 3. The seven interdependent basic sets of terms of systems / systemic / holistic vs. un-systemic thinking (as a dialectical system)*

No.	Systems / Systemic / Holistic Thinking	Un-systemic / Traditional Thinking
1	Interdependences, Relations, Openness, Interconnectedness, Dialectical System	Independence, Dependence, Closeness, A single viewpoint/system
2	Complexity (& Complicatedness)	Either Simplicity, or Complicatedness alone
3	Attractors	No influential force/s, but isolation
4	Emergence	No process of creating new attributes
5	Synergy, System, Synthesis	No new attributes resulting from relations
6	Whole, Holism, Big Picture	Parts and partial attributes only
7	Networking, Interaction, Interplay	No mutual influences

All process participants use their subjective starting points (knowledge, values, emotions, talents) and their objective starting points (needs in the market, possibilities in organization) in order to provide an innovative application of all requisite and available knowledge, entrepreneurial spirit, entrepreneurship, co-operation capacity and ethics of interdependence (Mulej, Kajzer, 1998; Mulej, 2000; Potocan, 2002; Potocan, Mulej, 2007). All of these attributes are complex enough again to require systemic thinking, and they are also interdependent enough for it. See Table 3 again.

In a broader sense, the entire process for the transition from invention to innovation consists of three general phases:

- discovering ideas and turning ideas into inventions, suggestions, and potential innovations, which is more or less an internal process in organizations,
- finding the first happy customers for ideas to become innovations, and
- finding many happy customers by diffusion.

The process is finished once all chances are used up in diffusion. Success in diffusion provides to investors courage to repeat all the processes. They may imagine that success in this process is normal: even official innovation projects succeed in less than five percent of the cases (Katz, 2003; Nussbaum, Berner, Brady, 2005; Daghfous, 2007).

In addition, making an innovation from an invention requires the inventor trying to become an innovator to consider everything included in the dialectical system of preconditions in Table 4.

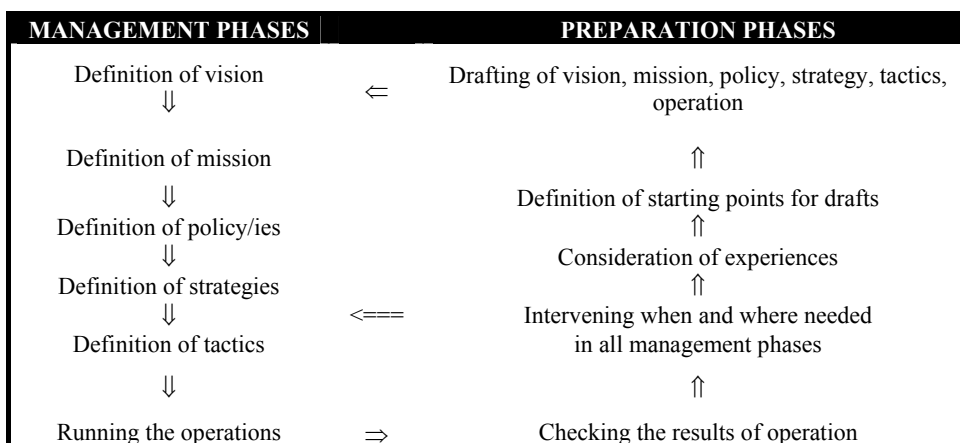
Table 4. Dialectical system of preconditions for innovation to take place

<b>INNOVATION =</b>	Invention X
	Entrepreneurship X
	Holism X
	Management X
	Co-workers
	Innovation-friendly culture X
	Customers
	Suppliers X
	Competitors X
	External (socio-economic) conditions X
	Natural environment X
	Nandom factors, including good luck

In order to cover well everything in Tables 1-4, the entire process in Table 5 must be taken care of with requisite holism.

Based on all the mentioned cognitions, a new question arises: who is in charge of making it all happen in the case of SMEs? Also, of course, we must add another question: How to change the members of SMEs if we want to improve the level of their innovativeness?

Table 5. The cybernetic circle of the preparation and implementation of the management process (a simple model)



## 5. THE HUMAN PART OF PRECONDITIONS OF THE REQUISITELY HOLISTIC INNOVATIVE BUSINESS

Around the world, 80% of humankind lives in the less innovative countries, partly in transitional countries, such as Slovenia, partly in the more traditional areas inside the innovative countries (Dyck, Mulej, 1998; Mulej, 2000; Potocan, 2005; Potocan, Mulej, 2007; Mulej, 2008).

Everywhere, making the innovative business the prevailing practice requires systemic thinking and practice to change the inherited culture and practice. At least, it requires making and implementing a harmonized working of both:

- The institutional economic and legal order supportive of innovative business; and
- The innovation-friendly behavior of decisive participants of innovative business in organizations.

Traditional economists tend to suppose that the institutions alone can work well enough (Casson, 1982; Robbins, 2002; White, 2005; Leydesforff, 2006; Mullins, 2006; Lawrence, Weber, 2007; Kuratko, 2008). Influential persons in organizations tend to read the institutional systems measures from their own viewpoints. Thus, the business reality is not only based on economics, but also

to an equal level of importance on the management and organization of human relations.

In innovative business, a central role belongs to inter-disciplinary co-operation and therefore to the interdependence of the professional invention/innovation teams. They do not consist of the research and development professionals only, but marketing professionals, at least, must be equally-footed for teams to make inventions and make innovations from them. The tendency of growing specialization made all professions, including the ones of these three groups (i.e. research, development, and marketing), closed-in and disregarding of interdisciplinary co-operation. (Barabba, 2004; Mulej, 2000; Potocan, 2005; Potocan, Mulej, 2007; Mulej, 2007; Potocan, 2008). This includes SMEs, their owners, managers, employees, consultants and other business partners.

The contemporary need for requisite holism requires professionals to accept their practical interdependence and enter interdisciplinary co-operation concerning all invention/innovation processes and all resulting novelties – inventions, suggestions, potential innovations and, at the very end of this long and very selective process, innovations, and their diffusion in markets. Not even research, development, and marketing professionals are enough; all operation managers and professionals in production, design, finance, human resource services, law, etc. are equally unavoidable – for innovation to result. Even if their co-operation is quite holistic, everything cannot be foreseen and in every phase mentioned above, a small portion of its results proceeds to the next stage. Stages do not follow each other in a simple linear style, but in interdependence: the later ones also impact the earlier ones, e.g. through expectations, estimations, future research, prognoses, etc.

In the briefed invention/innovation process, very different people show up, per functional areas, professions, human personality attributes, values, etc. (Mulej, 2000; Potocan, 2002; Potocan, Mulej, 2007; Mulej, 2008). Thus, leading them and managing their different cultures is difficult (See Table 6).

Table 6. Circular interdependence of values, culture, ethics, and norms

Individual values (interdependent with knowledge)	↔	Culture = values shared by many, habits making them a round-off social group
↓		↓
Norms = prescribed values on right and wrong in a social group	↔	Ethics = prevailing values on right and wrong in a social group

Managers must become leaders, i.e. co-operation-friendly rather than commanding one-sidedly, to attain more of the requisite holism (Bolwijn, Kumpe, 1999; Schein, 1984; Hofstede, 2001; White, 2005; Basadur, Gelade, 2006; Leydesforff, 2006; Rooke, Torbert, 2007).

This requirement to owners and managers has been raised for eight decades since Mogensen’s first publication in 1926 (more about Mogensen’s work see in Mullins, 2006), but again and again new methods had to be invented all the way to e.g. Business Reengineering and Twenty Keys, etc. This requirement to owners and managers has been raised for eight decades since Mogensen’s first publication in 1926 (more about Mogensen’s work see in Mullins, 2006), but again and again new methods had to be invented all the way to e.g. Business Reengineering and Twenty Keys, etc. Petzinger, 2000; Potocan, 2002; Robbins, 2002; Lafollette, 2005; Potocan, 2005; Glor, 2006; Huczynski, Bachanan, 2007, Fraedrich, Ferrel, 2007). Attributes in Tables 7 and 8, at least, deserve consideration.

*Table 7. Three interdependent groups of sources of cultural differences*

<b>Psychological Sources of Cultural Differences</b>	<b>Sociological Sources of Cultural Differences</b>	<b>Economic Sources of Cultural Differences</b>
Individualism:Collectivism	Social structure of society	Economic philosophy
Big : Small risk avoidance	Religion	Political philosophy
Big : Small power distance	Language	Communication
Masculinism : Feminism	Education	Management style

Bosses must innovate themselves to become role models of cooperation-based leadership. Psychology demonstrates that this can be done: nearly two-thirds of humans seem to behave in the “wait-and-see” passive and adaptive style, one-sixth of humans are willing to take risks and co-operate, only the remaining one-fifth are free-riders (Katz, 2003; Lester, Piore, 2005; Daghfous, 2007).

Hence, the first crucial issue in this framework is bosses’ self-transformation from managership to leadership (Petzinger, 2000; Rooke, Torbert, 2007); it tackles values management rather than knowledge management only, and reaches beyond motivation to personality (re)-formation and (re)-education (Potocan, 2005; White, 2005; Leydesforff, 2006; Potocan, 2008).

Afterwards, managers – leaders can start developing their personnel’s capacities of creativity and co-operation. Both are difficult, especially when education includes no or poor insight into other professions with whom a businessperson, a lawyer, or an engineer, etc., will co-operate in practice. Education in systems theory is missing, too. Thus, cultural differences need a bridge and people must learn to use it (See Table 8) (Schein, 1984; Hofstede, 2001; Potocan, 2002; Robbins, 2002; Mullins, 2006; Potocan, 2008).

Table 8. Framework for mastering the cultural differences in e.g. international business networks

Leaders’ competencies to act about psychological sources of cultural differences	Leaders’ competencies to act about sociological sources of cultural differences	Leaders’ competencies to act about economic sources of cultural differences
To not close oneself into own values, by listening to other opinions	To accept that your values, knowledge and comprehension are relative	All members of the team have influence
To get accustomed to others (empathy)	To be adaptable	The group should meet in different places, which have different cultures
To accept the change of the viewpoint in the discussion (own and of others)	To be tolerant to ambiguity	Heterogeneous ideas
Curiosity for other cultures	To develop bridges regarding language questions	Experiments and mistakes
Tolerance to everyone, self-control, patience	To solve conflicts	Common visions and aims
Ability to trust and to be honest, worth trusting	Personal relations	Understanding aims of all participants of the process
	To re-establish common culture of nations and similar	Willing to cooperate
	Diplomatic treatment	

The model »Global Leadership Competencies« (Moro Bueno, Tubbs, 2004) can help one's persistence in developing one-self's and others' capability of co-operation over the borders of different cultures (their case tackles the international co-operation of firms) through several stages:

- 1st stage - *Ignorance*: When diverse cultures face each other, one knows nothing about them. Every party considered its own behavior correct and best.
- 2nd stage - *Awareness*: During contacts of diverse cultures, impressions begin to be created, and links begin to evolve. One becomes aware of the importance of exchange.

- 3rd stage - *Understanding*: Individuals start showing a conscious effort to find out why people are as they are, and do what they do. They start developing some feeling for the other culture/s and some tolerance for the new way of behavior.
- 4th stage - *Appreciation*: Individuals are really tolerant to views different from their own. They start to appreciate and perhaps even prefer some views of the other culture/s.
- 5th stage - *Acceptance/Internalization*: Chances for cultures' mutual impacts grow a lot. People start to respect and to really accept their understanding of the other culture/s. They start to comprehend that diversity, globalization, and competition from other parts of the world are a fact.
- 6th stage - *Transformation*: Globalization becomes a way of life. The situation is well described with notions including: professionalism, adaptability, equilibrium, broad-mindedness, and internationalism. Fear from new and different things is off. On the contrary, one is interested in trying new and different things. Capacity to accept others' attributes is growing.

Cultural differences belong to central social and economic issues (Robbins, 2002; Rogers, 2003, Lester, Piore, 2004; Lafollette, 2005; Basadur, Gelade, 2006). This author suggests the following three framework steps in mastering them:

- Recognizing different cultures showing up in a business network;
- Recognizing the most crucial differences between cultures;
- Creation and application of ways to master cultural differences.

He suggests one should use three groups of sources of cultural differences (see Table 7 - adapted by grouping of sources). To master differences, managers must (1) first discover (1.1) who are the individuals with impact in the network, and (1.2) what are their cultures. Then they must (2) discover (2.1) what relations exist between influential network members, (2.2) relations between cultures, (2.3) cultural differences inside relations between cultures, and (2.4) pay attention to sources of differences (in Figure 7). In order to be able to (3) develop and apply ways to master intercultural differences, one can receive help from experiences and skills concerning competencies in Figure 4 (See also: Potocan, Mulej, 2007; Mulej, 2007; Potocan, 2008).

Attributes in Table 8 lead to informal systems thinking summarized in Table 3 due to the interdependence of values, culture, ethics and norms



summarized in Table 6. They may include or refuse trust: the selection depends on experience in organizational life.

## 6. SOME CONCLUSIONS

SMEs are smaller and have less human resources than the bigger enterprises, but they have, mostly, no less and often even more market pressure to face. If they do not employ consultants, they may lack crucial knowledge. Even in the case of having requisitely holistic knowledge, SMEs might do a poor job; even their bosses tend to do one-way commanding rather than to engage in interdisciplinary creative cooperation. The latter is hard to attain unless ethics of interdependence is consciously developed by SMEs' bosses and their coworkers and other business partners.

Compared to the traditional management style, the latter requires SMEs' bosses to innovate their own values, along with knowledge. Then, they can capitalize on the natural cultural differences they face in the current global economy.

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## **KAKO UNAPRIJEDITI INOVATIVNOST MALIH I SREDNJIH PODUZEĆA**

### **Sažetak**

Mala i srednja poduzeća ne mogu „pobjeći“ od globalnog gospodarstva i njegove orijentacije prema inovativnom poslovanju kao preduvjetu konkurentnosti. Uzevši u obzir veličinu i ograničen broj profesionalnih kadrova, mala i srednja poduzeća moraju uvelike raditi na inovativnosti i drugim profesionalnim kvalitetama svojih zaposlenika. Stvaranje uspješnih malih i srednjih poduzeća stoga se može smatrati procesom inoviranja i širenja inovacija, koji ima posljedice kako na strukturu poduzeća s aspekta veličine, tako i na promatranje malih i srednjih poduzeća kao poduzetničkih postignuća. Iz tog je razloga potrebno uzeti u obzir sve preduvjete za razvoj sadržaja, ali i procesa inovacije, što zahtijeva sustavnost mišljenja, umjesto jednostranog stručnog mišljenja/ponašanja. Stoga vrijednosti, kulturu, etiku, odnosno norme vlasnika, poduzetnika, menadžera i njihovih suradnika također treba inovirati, zajedno s njihovim znanjem. Na taj se način iz kulturalnih i profesionalnih razlika može stvoriti interdisciplinarna kreativna suradnja.