

# APPROACH TO INNOVATION IN THE CHANGING BUSINESS ENVIRONMENT

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**Abstract:** The effective functioning of companies is based on an adequate use of innovation and other marketing instruments. As a result of empirical studies, a conclusion was drawn that marketing orientation has not become common yet – both in Poland and in other countries, more affected by the global economic crisis. In most companies, the selection and use of marketing instruments in crisis situations as well as marketing strategies, are of emergency nature and are not subject to the perception of the role of specific factors in counteracting to crisis situations and the evaluation of their impact on market success of companies. During crisis times, first most mobile instruments are used, in particular the pricing and personnel, irrespective of the significance attached to them in the ranking of materiality for success and the consequences for survival of the company in the market. Additionally, a simplified algorithm is presented on the use of innovation and marketing instruments in a variable business environment.

**Key words:** business environment, innovation, global economic crisis, marketing instruments.

## 1. Introduction

The global economic crisis and the resultant economic slowdown came as a surprise to certain companies and economies. However, the crisis did not come suddenly – the symptoms could have been noticed earlier since – like every revolution – it had started much earlier than it actually happened [11]. In enterprises with encoded long-term prospects of business operations, projecting changes to the business environment is a key success factor [16]. Companies prepared to defend against threats and able to seize opportunities that arise in the environment, stay in the market – others drop out. The problem of competitiveness of business entities will remain one of the most important issues in the economy – the competitiveness results from modern entrepreneurship based on innovation and mature, socially responsible marketing. Thus, the main issue of a contemporary company is to define the current and future needs of the target market and to develop its offer in a way that it is perceived as fair and attractive when compared to competitors. The offer needs to be flexible to catch up with the changing environment. In the opinion of P.F. Drucker [10], the core functions of each company include marketing and innovation. Those functions penetrate all functional areas of the organisation and remain closely related. Marketing management is based on continuous innovation as a result of which the company gets adjusted to the environment [1,5,9,10], in its current and anticipated form. Following the logic of J.A. Schumpeter “*Social facts are – at least indirectly - the effects of human operations, economic facts – are the results of economic operations*” [24], the author decided that innovation may be treated as a marketing instrument since marketing facts are based on innovation. The purpose of this paper is to raise awareness about the socio-economic mechanisms of decisions in business processes

with the ability to apply this knowledge to rationalize the use of marketing tools, especially in crisis situations.

## 2. Innovation and Marketing in business management.

The scale and high speed of changes and the uncertainty as to the future of the business environment are characteristic for our times. Changes to the environment may either consolidate the existing situation or create completely new conditions – from friendly to hostile to companies. Under such circumstances, the only rational response to changes is innovation – changes of adaptive nature, generated by the enterprise. Thus, innovation may be identified as a core instrument to develop a market strategy of the enterprise, irrespective of the way it is articulated in various strategic models [3,5].

After a critical analysis of numerous definitions, the following definition of innovation was applied in the paper: *innovation is each purposeful change to the condition of objects and/or relations between them* [5]. Competitive advantage is obtained by development of new resources, change of the quality or configuration of the existing resources or a new method of use of resources. G. Hamel stresses that in order to have a meaningful position in a knowledge base society, the “*enterprise must pass on from allocation of resources to developing the best resources*” [15]. Innovation not only “*covers all kinds of business*” but also “*penetrates all phases of business*” [10]. Both marketing and innovation support the objectives of the organisation. All market objectives are achieved by transforming information, mass and energy flows incoming to the system into a new form of composition of marketing instruments (Fig. 1) used to implement the marketing strategy.

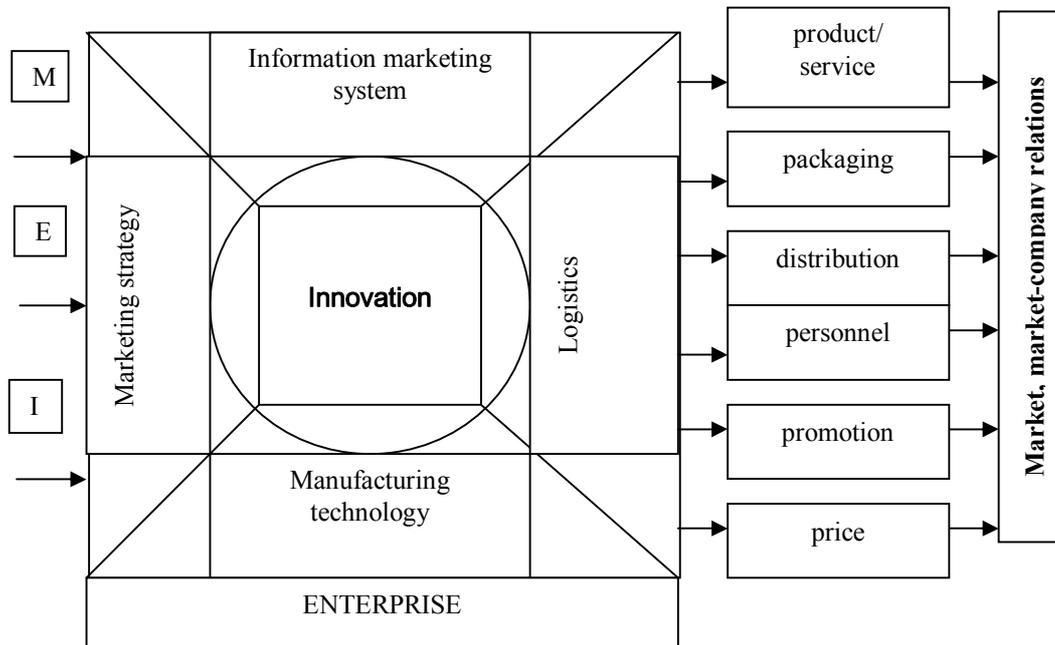


Fig. 1. Innovation as a marketing instrument creating new conditions in the market.

Source: author's study based on [5]

The strategy of each enterprise must be based on innovation. For a strategic business unit, marketing strategy is the core strategy while the strategy of innovation (Fig. 2) is always the resultant of the implemented or developed marketing strategies of the enterprise. Marketing covers "... *simply the entire business, it is so treated from the viewpoint of the final result being the customers' viewpoint*" [10].

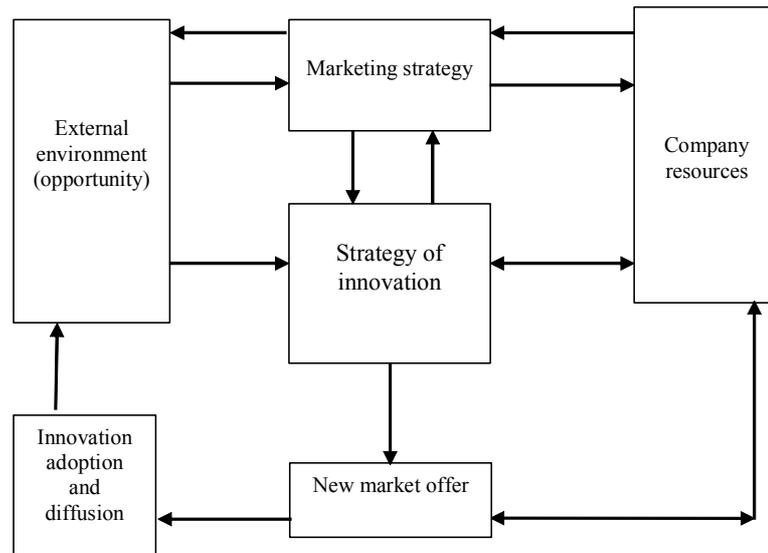


Fig. 2. The diagram of interrelations between the marketing strategy and the innovation strategy Source: author's study based on [5]

The strategies should be integrated and implemented in parallel. The following statement seems to be justified: there are no problems that would be important for an effective marketing strategy of a company that would be independent of innovation – and conversely, there is no problem that would be important for implementation of innovation that would not affect the process of designing and implementing the strategy. The need to get adjusted to new conditions is in itself a reason for numerous crises in various areas of the enterprise, often resulting in chaos in the areas affected by crisis. That often results in lost confidence in the classical models and methods of management. The strategy in a classical way is defined as identification of long-term targets and allocation of resources required to achieve the targets [7]. In the opinion of P.F. Drucker "...*targets are required in each area of business...*" [10]. "*In the most recent literature, strategy is increasingly frequently treated as a tool ... providing companies with an ability of flexible reaction to the outside signals*" [20]. Each enterprise follows a strategy – partly developed, and partly containing emergency components resulting from unforeseen events and circumstances [18]. Rationally developed strategies should be designed to the largest possible extent. However, a majority of enterprises continued to implement strategies in compliance with sectoral standards – they improve the chances for market success of those that apply well developed strategies but which are non-typical and difficult to identify for competitors.

### **3. Perception of the role of innovation and marketing before and during the economic crisis in the light of empirical studies**

The research presented in this paper results from an attempt to resolve the problem and its essence comes down to the following question: what weight is attached by entrepreneurs to innovation and specific marketing instruments, in what order are they used in the existing or approaching crisis situation and has the global economic crisis changed the attitudes of entrepreneurs to the available instrument and the ways they are used? Such an approach required an analysis and reconstruction of the theoretical status in the sphere of marketing, competition among companies, strategies of enterprises and an empirical verification of the attitudes of the managing staff and perception by the leaders of the role of specific marketing instruments for success or survival of their company.

The following leading hypothesis was applied: in crisis situations, in particular during a global economic crisis, the selection and order of application of marketing instruments is primarily subject to exogenous factors, irrespective of the degree the specific country was affected by the global economic crisis.

The main hypothesis was complemented with partial hypotheses:

1. Despite the variability of the environment and the need to anticipate the future condition of the environment, most companies do not have written strategies.
2. The selection and use of marketing instruments (including innovation) occurs at random, irrespective of the developed market strategy of the company and the perception of the role of each factor in counteracting to crisis situations.
3. Each marketing instrument occupies a different position in the rankings of factors generating development opportunities and factors supporting the overcoming of a crisis situation.
4. Innovation is not an instrument commonly recognised as a basic instrument, irrespective of the condition of the business environment.
5. In crisis situations first the most mobile instruments are used, irrespective of the significance assigned to them in the ranking of importance for success.

The hypotheses used for the empirical research were verified with historical data, developed on the basis of data relating both to entities and small groups [6,13]. A view was accepted that the specific studies result not only in knowledge of the features of the studied objects but also can be helpful in an analysis of other objects not covered with the research (with similar properties and situational context to the studied objects) and may generate a premise to formulate and verify hypotheses relating to the population from which the studied objects derive [8]. Theses in induction sciences are substantiated with perceptual judgments [21] which are formulated in the form of perceptual statements on the basis of a subjective selection and interpretation of the studied phenomena and must be subject to interpretative processing from the viewpoint of the scientific rules, in this case on innovation and marketing instruments and their role in the management of enterprises at the time of a global economic crisis.

The scope of the conducted research is defined with:

1. the object range being a set of external and internal factors and parameters characterising enterprises along with the relations existing between the sets. The sample selected on purpose comprised small and medium-sized enterprises, operating in various sectors of the economy for minimum 5 years (a similar minimum duration of operation is also applied by the US magazine "Inc." which every year publishes a list of one hundred fastest growing companies);

2. the subject range – those are small and medium-sized enterprises making up the basic sample and small and medium-sized enterprises from various areas of activity in the European countries that were most affected by the crisis as a reference sample;
3. the time range covered with the research theoretically was the period from the first studies by J.A. Schumpeter on the role of innovation in economic development – that is since 1911. until the contemporary times, or precisely until October 2013; empirically, from the beginning of 2007 being before the global economic crisis (commonly the fall of Lehman Brothers is accepted as the beginning the crisis) and the end of 2012;
4. the spatial coverage includes primarily Poland as a “green island”; for the reference group, small and medium-sized companies were used from Cyprus, Greece and Spain (hereinafter termed as the CGS Group).

The research was conducted in the form of interviews with a questionnaire in Polish for the part of the research in Poland and in Spain, and in Greek for the part of research conducted in Greece and in Cyprus.

Rationally developed strategies should be designed to the largest possible extent. They should also provide for as many viewpoints as possible [19] and project the sensitivity and responsiveness of the environment. The perception of the condition of the environment and not only its actual condition, underlies economic decisions and affects opinions on the company’s economic condition (Table 1). Nevertheless, in 2007 with a friendly business environment, the largest number of companies (12 PL) were only in a good condition and as few as four in a very good condition. Within the CGS group, when the climate was assessed as indifferent, as many as eight out of 26 entities assessed their condition as very good.

Table 1. List of economic condition of enterprises with their assessment of the business climate in 2007 for Polish companies and companies in the CGS group

CGS Group companies					Polish enterprises				
2007 condition – business climate	A	B	C	D	2007 condition – business climate	A	B	C	D
a	4	4	4	0	a	4	12	4	0
b	8	3	1	0	b	2	10	2	1
c	0	0	1	1	c	3	10	1	0
d	0	0	0	0	d	0	0	0	1

Source: author’s studies in enterprises

In 2012 the largest number of Polish companies (10) while assessing the conditions of functioning as difficult continued to remain in good condition (Table 2) although four companies assessing the climate as very difficult felt they were threatened. In the CGS group companies, one company assessed the climate as friendly (more favourable only to financial and investment companies that buy when others are selling) and their condition as very good while two companies assessed the climate as difficult and felt threatened.

Table 2. List of the perceived economic condition of enterprises with their assessment of the business climate in 2012 for Polish companies and companies in the CGS group.

CGS Group companies					Polish enterprises				
2012 condition – business climate	A	B	C	D	2012 condition – business climate	A	B	C	D
a	1	2	1	0	a	1	1	0	0
b	0	1	2	1	b	5	5	5	1
c	2	1	3	1	c	3	<b>10</b>	7	2
d	2	<b>4</b>	3	2	d	0	2	4	4

Source: author's studies in enterprises.

The overall business climate is the resultant of a number of factors, including internal, sectoral, macroeconomic and global factors. Some of them generate business opportunities and some create hazards to the existence of companies. In most instances (Table 3) development opportunities are not perceived among external factors. In each case, companies develop as a result of innovation. Other research shows that the success of innovation in Polish industrial companies are largely subject to internal process factors rather than to environmental factors [Haffer 1998, p. 215-218]. In the CGS group, both in 2007 and in 2012 sectoral factors generate opportunities (76.9% and 73% of companies respectively) and macroeconomic factors in the PL group.

Table 3. Groups of factors that generate the largest number of opportunities for company development in the assessment of Polish entrepreneurs and entrepreneurs of the CGS Group.

PL		CGS		
Companies	%	2007	%	Companies
7	14	internal	7,7	2
15	<b>30</b>	sectoral	<b>76,9</b>	20
15	<b>30</b>	macro	7,7	2
13	26	global	7,7	2
		<b>2012</b>		
8	16	internal	3,9	1
7	14	sectoral	<b>73,0</b>	19
21	<b>42</b>	macro	19,2	5
14	28	global	3,9	1

Source: author's studies in enterprises

Perception of environmental signals and finding even a beginning of an opportunity is the responsibility of the managerial staff of leading companies. Leadership is one of the core success factors of leading companies. The role of each marketing instrument for the success of enterprises (Table 4) is perceived in a different way among Polish and CGS group companies. It seems that Polish companies, irrespective of the business climate,

focus on the product (first position in the ranking in 2007 and in 2012) while the managers of CGS companies continue to focus on prices. Innovation in the PL group is perceived as a success factor (second position in 2007 and fourth in 2012) while in the CGS group innovation was clearly on the last position. However, as proven in earlier studies [14], belief in the success of a new product (product + innovation) was much ahead of information on the customers' priorities concerning products and prices, market size or knowledge of technology. However, it should be noted that the study was performed only among a sample of market leaders and not on a group of average random selected enterprises. Then, perhaps it is the conviction that is a feature of market leaders and the driving force of success. The personnel in the studied companies occupied the fourth position in the 2007 ranking and in 2012 it had the third position among Polish companies while it dropped to the seventh position among CGS group companies.

Table 4. The role of each marketing instrument for the success of the enterprises in the assessment by Polish entrepreneurs and in the assessment of entrepreneurs of the CGS group (positions from 1 to 8; number of points/position in the ranking) in 2007 and 2012.

Polish companies		Instrument	CGS companies	
Number of points	ranking	2007	ranking	Number of points
<b>155</b>	<b>2</b>	<b>Innovation</b>	<b>8</b>	<b>146</b>
168	3	Price	<b>1</b>	93
146	<b>1</b>	Product	2	95
227	4	Personnel	4	112
236	5	Distribution	3	107
349	<b>8</b>	Time	7	143
244	6	Information, IT	6	121
275	7	Promotion, PR	5	119
		<b>2012</b>		
<b>177</b>	<b>4</b>	<b>Innovation</b>	<b>8</b>	<b>165</b>
164	2	Price	<b>1</b>	94
162	<b>1</b>	Product	3	105
171	3	Personnel	7	137
298	7	Distribution	4	108
331	<b>8</b>	Time	5	110
208	5	Information, IT	6	113
289	6	Promotion, PR	2	104

Source: author's studies in enterprises

In many enterprises, high qualifications and experience of the personnel are treated as third-range sector or even immaterial when it comes to using them in market competition. Such approach was visible in earlier studies in enterprises with various forms of ownership and various financial condition [23; 22]. A large number of Polish enterprises intend to compete in the market basing their strategies on a very high quality of their products rather than on the unique nature of their offer. Functioning of companies when the critical tensions related to the global economic crisis fade away will much depend on the sequence

in which the management instruments are used (Table 5). Most of the enterprises keep being convinced that each event requires immediate reaction which makes them look mainly at fast changing instruments that can be used solely on the basis of their own decisions. Such areas usually include instruments implementing the price policies, information, promotion and – as observed in the time of crisis – human resources. In Polish companies in 2012 – the product, price and personnel in terms of importance for the success occupied the first three positions; however, only the price and personnel are identified as fast reaction instruments. Among the CGS group companies, also the price (in the ranking of importance for the success – first position – Table 4) and personnel (in the ranking of importance for the success – seventh position – Table 4) were among the first three instruments that could be used fast. The reduced headcount as a result of the global economic crisis is not a characteristic feature for any sector – that was a common behaviour [2]. At the very beginning of the crisis, over 40% of US entrepreneurs decided that operations in the area of HR management could become much more important than before the crisis. The main challenge in the time of crisis was to attract (77% of entrepreneurs) and retain (49%) of employees with exceptional qualifications as well as to attract (60% of entrepreneurs) and retain (34%) top management [www.watsonwyatt.com/scripts/, quotation after 2].

Table 5. The sequence of using marketing situations in crisis situations (2012) by Polish enterprises and by CGS group enterprises (positions from the first to the eighth; number of points/position in the ranking).

Polish companies		Instrument	CGS companies	
Number of points	ranking		ranking	Number of points
<b>314</b>	<b>8</b>	<b>Innovation</b>	<b>8</b>	<b>150</b>
134	1	Price	2	105
287	7	Product	7	141
155	2	Personnel	1	56
198	3	Distribution	4	117
218	5	Time	6	128
211	4	Information, IT	3	115
283	6	Promotion, PR	5	124

Source: author's studies in enterprises

Information and IT technologies – the importance of which for the success is not highly appreciated, both among Polish managers (Table 4 – position 5) and managers from the CGS Group (Table 4 – position 6), are among the top positions (Table 5 – positions 4 and 3 respectively) as instruments needed for fast reaction. Product and innovation – in the common opinion of Polish and CGS companies – occupy the last positions among the instruments used in crisis situations. However, there are areas in which (Table 6) endeavours have not been abandoned although in the opinion of Polish companies, innovation roped n the ranking of success factors from the second position in 2007 to the fourth position in 2012 (Table 4) while in the opinion of CGS group companies, it continued to occupy the eighth position. Until recently, R&D works in many instances consumed almost 50% of income and about 3.4% of sales revenues, of which 70% for quality development of new products [Business Week, Special Issue 25 October 1996, after

14]. Innovation underlies development and therefore development works should be conducted parallel to daily activities. The time of crisis and the uncertain income situation of a majority of the population open new opportunities to create marketing strategies, particularly in the area of sub-standard strategies [25]. The time of crisis is also a right time to develop small flexible companies that should fill in the room left by large, immobile economic organisations. The creation cost of one job is the advantage of small and medium-sized companies which may be decisive for the development of the sector. The costs is four times lower than in the sector of large enterprises [12].

The conducted empirical studies generate the following conclusions, confirming the main hypothesis and all the partial hypotheses:

H0: in crisis situations or right before a crisis, in particular during a global economic crisis, the selection and order of application of marketing instruments is primarily subject to exogenous factors, irrespective of the degree the specific country was affected by the global economic crisis. In the case of Polish enterprises, the global perspective is used as the point of reference while in the case of CGS group companies – macroeconomic perspective.

1. The marketing orientation is not yet common both in Poland as well as in Greece, Spain and Cyprus, in many companies it is practiced ineffectively and most companies do not have a written strategy.

2. In most companies, the selection and use of marketing instruments in crisis situations as well as marketing strategies and when a crisis is only anticipated, similarly to the marketing strategy, are of emergency nature, irrespective of the perception of the role of specific factors in counteracting to crisis situations and the evaluation of their impact on market success of companies.

3. Each marketing instrument occupies a different position in the rankings of factors generating development opportunities and factors supporting the overcoming of a crisis situation.

4. Innovation is a difficult instrument, often time consuming and one that would not guarantee success, even before a crisis. Therefore, during crisis times, first most mobile instruments are used, in particular the pricing and personnel, irrespective of the significance attached to them in the ranking of materiality for success and the consequences for survival of the company in the market.

Each decision is based on observed events (Fig. 3) requiring or not requiring specific reactions when observed and the reactions may take place in a short or long term. Depending in the significance of the event, the actions by entrepreneurs may be just corrective or comprehensive, related to modifications of objectives and marketing strategies.

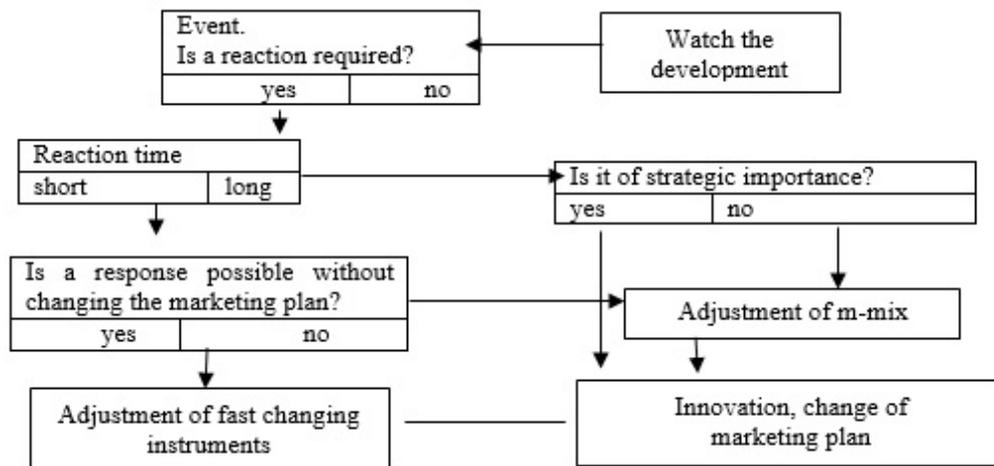


Fig. 3. A simplified algorithm of using marketing instruments, providing for the hazards relating to crisis and a shortened time perspective  
Source: author's study based on research in enterprises

#### 4. Summary

The conducted research and analyses were to constitute a basis to develop a model of an enterprise that will withstand the destructive impact of the global economic crisis. Although no resolution was found to the basic dilemma if a perfectly flexible company or one with solid foundations is resistant to turbulence, the main assumptions were formulated to construct a model outline of such a company and an algorithm to use marketing instruments in crisis situations:

1. Each organisation functions in an open system, composed of a number of entities that is difficult to specify, in order to achieve their targets, organisations develop mutual relations, comfortable for the participants.
2. In order to effectively function in open markets, enterprises must closely follow their microeconomic environment, the macroeconomic and global environments in all their dimensions. To this end, enterprises should develop functions and observation and analytical structures provided in particular with weekly formal detector of changes [4] and a system to filter information [17].
3. Contemporary enterprises – irrespective of their will – are involved in the knowledge transfer processes. Knowledge transfer between the environment and enterprises occurs in two directions: to the enterprises (absorption) and from the enterprise to the environment (transmission). The impulse of new knowledge and a strong market motivation often induce innovation that is required for development. Enterprises may survive and become successful also in a crisis reality *“if they are able to create a separate important business out of innovation, if they are able to systematically and with commitment depart from yesterday's entrepreneurship while installing such financial and managerial organisation as the innovation may require”* [9].

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