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## IMITATION VS. INNOVATION IN THE SME SECTOR<sup>1</sup>

### *IMITACJA W PORÓWNANIU DO INNOWACJI W SEKTORZE MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW*

**Key words: adaptation, competitiveness, renewal, risk**

*Słowa kluczowe: adaptacja, konkurencyjność, odnowienia, ryzyko*

**Abstract.** It is frequently mentioned that during economic crisis one of the key elements of strengthening SMEs is permanent renewal and capability of innovation. However, only some businesses are able to carry out classical product/service innovation (Schumpeter). We are of the opinion that observing the best practice, adoption and/or adaption – the imitation – should be given a higher function in everyday business life. From the point of view of business development, imitation can be more important than innovation. To find ideas worth imitating it is necessary to react and start to produce rapidly, at the right time and bring to the market the essentials of imitation. The aim of the paper is to give a theoretical overview of the interpretations of innovation and imitation. Sectoral features and regional differences determine the scope of development and renewal for existing enterprises. At the same time the knowledge of entrepreneurs regarding innovation is insufficient, thus a new paradigm is needed.

### Introduction

The ability to renew is a prerequisite for the viability of any company. Due to the huge number of SMEs (over 1.8 million, 600 thousand of which were joint ventures in Hungary in 2012), it is important to ask how these companies can become viable. The average age of the companies operating in Hungary in 2013 was 9.63 years, the average of those companies who employed more than 250 persons barely exceeded 15 years and the average age of companies employing less than 10 people was 10 years. This shows that the age of firm size is directly proportional to the size of firms. Most of the actors engaged in agricultural activities can be characterized by a higher average age, since they started to work immediately after the change of regime. From the beginning of the economic crisis (2008), a slight decrease occurred in the number of active enterprises, but due to the crisis, the number of newly founded (real new) businesses was lower than the number of closed firms (Tab. 1).

According to the *Oslo Manual* an organization can be considered innovative, if it is able to produce or/and adopt new things and has adaptive behavior [*Oslo Manual* 2005]. Strategic vision involves monitoring changes in the environment in every aspect and responding appropriately which is conducive to long-term survival (and later development) [Montgomery-Perry 2011, James

Table 1. Number of operating, real new and closed enterprises

*Tabela 1. Liczba działających, nowych i zamkniętych przedsiębiorstw*

Number of enterprises/ <i>Liczba przedsiębiorstw</i>	Year/Rok					
	2000	2004	2008	2009	2010	2011
Operating/ <i>Działające</i>	625 147	708 307	701 390	688 996	696 680	690 375
Real new/ <i>Nowe</i>	86 226	71 220	71 316	63 110	69 935	68 804
Real closed/ <i>Zamknięte</i>	60 159	60 079	72 663	63 566	82 975	-

Source/*Źródło*: [CSO 2013]

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2013]. If we accept Bray's [1995] approach towards the characteristics of innovative companies, the following should be pointed out:

- Receptiveness to new ideas and/or their creation, taking advantage of new business opportunities;
- Continuing product and service creation and improvement, in addition to the development of existing products' quality
- Use of new technologies, participation in continuous training,
- emphasis on activities that will be in line with changes in customer needs, the importance of a marketing approach during development,
- Adaptation to change [Bray 1995].

Innovativeness involves recognizing the need for innovation. It must consider the area and form of innovation for the organization. The life cycle of the innovation model most often is described as a normal distribution function [Rogers 1962, Drucker 2012]. Taking into account the technical and financial risk of the innovation process, it is understandable that many authors previously interpreted imitation as a negative phenomenon as it reduces the innovators' profits, risks of return on capital of, diverts the innovators from further research and development activities [Segestrom 1991, Klinger-Lederman 2006].

### **Material and methods**

The present study's aim is the examination of the potential strategies of smaller enterprises from the point of view of innovativity – like innovation, open innovation and imitation – how the different strategies affect the business activities and the conceptual limitation of innovation and imitation based on secondary sources, the evaluation of their role, and discussing their part in the success of economic actors with content analysis.

### **Results**

Innovation in its classical conception in terms of authenticity can be classified as one of the following four types:

- Invention is an original idea (product, service, process), which did not exist previously. The creative idea can be a real innovation, if its marketable development will be implemented (innovation process from concept to consumer delivery);
- Further development is an additional improvement of an existing product, service, process or its application in another area (functional change);
- Imitation is not the copy of the product or service, but the production of products and services suitable for function, in such a way that the company add their own idea to another creative product;
- Synthesis is the combining of existing products, services in a new way, using them in a new system, requesting practical and new application forms of the previous ideas.

The common denominator in these four types of innovation is that they deplete the default explanation of innovation in terms of businesses in so that they produce something else or in another way, to satisfy other consumer demand. Hereinafter, I will interpret the characteristics as one category (innovation) the invention and improvement, primarily on the basis of Segestrom [1991], Jarjabka and Lorand [2010], Huizing [2011], Takácsné György [2013]. The individual characteristics were evaluated using a five-grade (between -2 and +2) scale.

From a business point of view progress can be accomplished using three strategies:

- Through innovation (product development) to find out new things of different content compared to existing products or services;
- Imitation, accomplishing good solutions, their further development and additional added value;
- Through synthesis, the ideas being integrated into the existing system, giving the products or services new features.

Innovation is characterized by:

- Access to markets: risky (technology/market) -2;
- Cost: not predictable, high (the cheaper innovation excite faster imitation) -2;
- In terms of competitive advantage and uniqueness: innovation is an excellent way to gain advantage +2;
- Business processes, structures and systems integration: design, fitting the structure to the previous system, correlated to consumer (customer) needs, building on strategic competitive ability (strength of competition) +2;
- Control over the future (further) development: total control +2;
- Further development ability: own efforts and an opportunity to stay in first -2;

Imitation is characterized by:

- Market access: slow but predictable (risk: hidden trap; adaptation problem) -2;
- Cost: can be high, but lower than the innovation (depending on: the complexity and nature of adaptation) -1;
- In terms of competitive advantage and uniqueness its success depends on the quality of adaptation and creativity and at the same time often a differentiating strategy 0;
- Business processes structure and system integration: it is favorable that the improvements (new function) are based on the existing processes +1;
- Control over future (further) development: can be controlled, if the application of ideas and market competitive advantage exist +1;
- Further development ability: can be developed from within 0.

Integration is characterized by:

- Market access: fast +2;
- Cost: low (although the cost depends on the characteristics of the previous operating system) +2;
- In terms of competitive advantage and uniqueness: low, cost efficiency and economies of scale could be the basis (in the case of a good stable portfolio) -1;
- Business processes, structure and system integration: bearable if the basic structure of the company after the synthesis remain, the system does not become too complicated 0 ;
- Control over the future (further) development: high dependence on other actors -2;
- Further development capability: external developers +2.

By evaluating the advantages and disadvantages it can be stated that imitation can be characterized by positives in many cases. The high risk of further development is not considered a critical factor because if a company appears on the market relatively easily through imitation, it can easily leave with some sacrifices made. Imitation often can be seen in the agricultural sector with the dissemination and application of technologies that were imported under the production systems.

Imitation and its essence in an economic sense is that the ideas worthy of imitation must find and start production and market distribution quickly and at the right time. This part of corporate behavior is partly equivalent to the diffusion of innovation at an early stage. Imitation may be more important than innovation, since imitation is also about adapting to changes. Moreover, imitation costs, risk (technology and market) can be reduced. The recognition that the best practice, the innovative products, conscious copying of services (imitation) help to preserve and increase competitiveness, is important for all businesses [Kołodko 2009].

The practical appearance of open innovation in the agriculture and food industry is especially noticeable. Through Open Innovation, companies' competitive advantage can be obtained not only through research & development activities, but the free accessibility of results. The results proclaimed for other economic actors with proper economic relations and guarantees, on the one hand give faster diffusion of innovation results (wider access, speed can reduce the risk pertaining to return on capital), on the other hand, the majority of economic actors operating in line with this practice give the opportunity to others to receive results. Overall, development also serves competitiveness [Chesbrough et al. 2009, Lee et al., 2010, Abulrub, Lee 2012, Tóth, Strén 2012]. All this assumes the willingness to cooperate. In accordance to what has been written previously, open innovation is characterized by:

- Market access: quick (considering the whole innovation life cycle);
- Cost: sharable and can be reduced +2;
- in terms of competitive advantage and uniqueness: greater bargaining power due to combined market entry, larger risk owing to the lack of trust +1;
- Business processes, structures and systems integration: special, but requires synchronization between the partners 0;
- Control over future (further) development: shared and give opportunity to ramification –1;
- Further development capability: multi-player, teamwork required +1.

The role of cooperation in the possible implementation of innovation results has increased significantly in some sectors. The competitiveness of the agricultural sector will depend on how the players concerned with export will be able to embrace new solutions such as variety, technology, mechanization and chemicals – all used worldwide by competitors. This is a difficult and slow process among the agri and food industry's actors. [Klerx 2010, Maciejczak 2012, Wright 2012, Owen, Williams 2012, Takács 2012, Dries et al. 2014]. The significance of the spread of innovative solutions in the Hungarian agri-food industry was especially highlighted [Nábrádi 2010, Fenyvesi, Erdeiné Késmárki-Gally 2012]. Bigliardi and Galati [2013] analyzed open innovation from the perspective of stakeholders (actors) and stated that the integration of internal and external knowledge is important for everyone. They also determined that the models that can be applied in the food industry, such as the „Sharing and Winning model”, the „Food Machinery Framework model” and „Want, Find, Get, Manage model.”

1. The „Sharing and Winning model” is characterized by resource concentration based on collaborative alliance of partners, cooperation and/or the joint ventures. The value is created by the value chain, good reputation, trust and the will to win. It is characterized by consumer-driven innovation.
2. The „Food Machinery Framework model” is typical for most food machine manufacturing models. The consumers themselves are large, multinational food processors, and development happens with their cooperation, where the role of knowledge centers on (universities, laboratories, research institutes). The openness of the process stems from the fact that other suppliers can be involved at any time.
3. „Want, Find, Get, Manage” models in the process of open innovation highlight those points where external knowledge (knowledge centers and other sector industries, intermediate innovators, competitors) can be given a key role. The process starts with recognition (wish) and then follows by finding the right partner, and next the acquisition of the necessary knowledge, finding the win-win solution. Implementation and mutual understanding are important, and to determine the tasks, the exchange of appropriate information is paramount.

## **Conclusions**

It is indisputable that the characteristics of innovative businesses are open to novelty, receptivity, continuous development, quality improvement, the application of new technologies and adaptive behavior. In our opinion, these qualities are necessary but not enough for the business to be successful. It is necessary to consciously select their place and role not only in the innovation process, but also develop a business strategy within the context of innovation – imitation – synthesis – open innovation, marking out the least risky path. For SME sector actors one of the possibilities for the future is monitoring, adopting and/or adapting (imitating) the sector's best practice. Imitation is more important in terms of company growth than the product, service or process innovation. The copying of innovators can achieve significant results through cost and risk minimization. It is important to find ideas worthy of imitation, to react at the right time and be rapidly available for production and market access. However, it should be kept in mind that participation in the diffusion of innovation can also be realized with involvement in a strategic alliance (innovation networks and clusters). However, this topic has become the subject of another study.

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## Streszczenie

*W kontekście kryzysów ekonomicznych często wspomina się, że jednym z kluczowych elementów umacniających MŚP jest ich potencjał innowacji, nieprzerwane unowocześnianie. Tylko kilka z tych elementów jest w stanie przeprowadzić klasyczną innowację produkt/serwis (Schumpeter). W naszej opinii obserwacja najlepszych praktyk, adopcji i/albo adaptacji – imitacja – powinna odgrywać większą rolę w codziennym życiu biznesowym. Z punktu widzenia rozwoju biznesowego dla MŚP imitacja może być ważniejsza niż innowacja. W porę uznać pomysł godnym imitacji, szybko reagować i rozpoczynać produkcję oraz wprowadzać na rynek – to podstawy imitacji. Takie zachowanie przedsiębiorstwa może być dopasowane do zachowania tych przedsiębiorstw, które są pionierami w rozpowszechnianiu innowacji. Celem niniejszej pracy jest przedstawienie teoretycznego zarysu ogólnego interpretacji innowacji oraz imitacji. Cechy sektora, różnice regionalne, mające swe źródło w zróżnicowanej sytuacji ekonomicznej, zazwyczaj determinują możliwość istnienia przedsiębiorstw z punktu widzenia rozwoju, odnowy. Jednocześnie wiedza przedsiębiorców na temat innowacji jest niewystarczająca, w związku z tym potrzebny jest nowy paradygmat.*

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