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20 November 2012

Online at <https://mpra.ub.uni-muenchen.de/48305/>
MPRA Paper No. 48305, posted 21 Jul 2013 13:44 UTC

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THE IMPORTANCE OF BUSINESS SUPPORT INSTITUTIONS FOR IMPLEMENTING INNOVATIONS IN SMEs²

Abstract

The authors demonstrate a problem of innovation support by business support institutions (BSIs) operating in the market. The conducted research and secondary data analyses indicate that despite the availability of broad range of dedicated products, entrepreneurs prefer traditional forms of cooperation with external institutions focusing on the access to external sources of financing. The situation requires further research on the causes of such a low utilisation of BSIs' innovation support offers and low level of engagement in generating innovations in the economy by business support institutions, which were established for this purpose.

key words: SME, innovation, business support institutions

JEL: L31, G32,

Introduction

Innovation support in business is a broad term that covers various aspects including both innovation policy and support at different stages of research and company development. The importance of innovation support for businesses, particularly micro, small and medium-size companies, is emphasised by different institution at both national and European level. In 2006 the Council of Europe issued a document presenting its stand on innovation support at EU level [European Council, 2006]. It emphasises innovation support as a fundamental part of the Lisbon Strategy and lists strategic priorities in pro-innovation actions at EU level.

1. Instruments supporting innovativeness in companies

The innovation support elements listed by the Council of Europe include: access to

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² This is a corrected version of the paper published in Wrocław University of Economics Scientific Journals (no. 271/2012). It takes into consideration the commentaries which appeared after the presentation at the conference ""Financial Management - Theory and Practice"" in Karpacz on 20-21 May 2012

financial instruments, favourable regulations, increasing the range of institution generating and implementing innovations, especially in research and development area and building links between business and science [PRO INNO, (2009)].

In order to support innovation the institutions need to provide specific services and shape favourable conditions. The support services can be rendered with various instruments in a form of legal acts, direct and indirect support programmes in different institutions.

Innovation support services can be offered by public sector institution such as local and central authorities, non-profit organizations and commercial enterprises. They can be divided into four main categories that represent the following areas of activities [Matusiak (2010)]:

1. lowering costs of starting business, including simplification of procedures, reduction of administrative costs and reporting, simplifying the rules of taxation;
2. technology transfer and supporting innovative investments by providing access to specialised consulting and technological information, organising business cooperation with research institutions, developing systems financing high-risk enterprises;
3. motivating and improving entrepreneurs' business competences by training and advisory services, initiating cooperation between business entities, shaping entrepreneurial attitudes;
4. direct support and coordination of support programmes including: financial support in a form of grants, subsidies, preferential loans and credits, developing pseudo-bank activities, institutions and programmes supporting entrepreneurship and innovation.

2. Innovation support institutions

Innovation support institutions are diversified entities in terms of their size, ownership, character of activities and range. Therefore, it is difficult to describe their influence on creating innovations in businesses but also to define them as such.

BSIs are institutions that “provide entrepreneurs with support in creating, running and

developing a company³”. One of the broadest classifications of BSIs was presented in a book by B.Filipiak and J.Ruszała [Filipiak, Ruszała (2009)]. The authors not only list and group different institutions supporting SMEs into homogenous groups, but also make an attempt to specify the main objectives of selected BSIs. In their opinion, most BSIs are aimed at supporting the establishment of new companies and the development of the existing ones. The only institutions that prioritise innovation and entrepreneurship support are regional development agencies, business support centres and business incubators.

Despite emphasising the importance of financing innovation in innovation policies, most publications select financing institutions, as a separate BSI group, including banks and other commercial institutions into the process of creating innovation. The literature of the subject emphasises the role programme supporting cooperation between business and science and the support of institutions supporting commercialisation in research centres. The advisory role of business incubators, industrial chambers and different advisory and training centres is also mentioned.

In fact theoretical approach is predominant in publications. The research conducted in 2010 on a group of SMEs from Lubelskie Voivodeship shows that companies cooperate with commercial banks most frequently (91.3%) [Kamińska (2011)]. The second most frequently used institutions type were advisory and training centres, which were used by 54.4% of the respondents. Other institutions included regional development agencies (48.5%), industrial chambers and associations (40.8%), universities (37.9%) and innovation and entrepreneurship centres (29.1%). The smallest number of respondents pointed to loan funds (29.1%) and guarantee funds (27.2%), which offer financial instruments dedicated to SMEs implementing innovations.

³ www.pi.gov.pl

3. The evaluation of BSIs' influence on implementing innovations in SMEs in Lubelskie Voivodeship.

3.1. The sample

One of the elements of research project nr NN 113 303038 entitled: "Financial instruments of innovation support in Lubelskie Voivodeship" was the survey on the influence of BSI on the process of implementing innovations. The research covered 395 entrepreneurs from Lubelskie Voivodeship, out of which 190 implemented different types of new solutions concerning the product or service, production system, company organization, marketing solutions or instruments. Therefore, the share of innovative companies in the sample was significantly higher than in the rest of the country. Natural persons running their own businesses constituted the largest group of respondents (nearly 61%). Limited companies (15%) and partnerships (9%) had also their significant shares in the group. Other forms of businesses were incidental.

The analysis of the companies taking part in the research in terms of their range and interactions showed that local and regional enterprises were predominant. They made 30.8% and 34.5% respectively. National level companies (23.5%) and international companies (11.2%) were much less represented. One should emphasise that such a structure is characteristic for the whole Polish market.

3.2. Companies' expectations from business support institutions in implementing innovations

The analysis of the data presented in Table 1 shows that the interest in services of business support institutions is common among companies in Lubelskie Voivodeship, yet, most entities showed that they needed support at the stage of financing. One may notice certain contradiction with the data of the Main Statistical Office that indicate high degree of financial independence among Polish businesses, for which the main source of financing is

their own resources⁴. The situation can be explained by low activity of business support institutions, what makes companies finance investments from their own resources. Still, companies expect higher engagement of BSIs in this very activity. This concerns the institutions that offer preferential, frequently non-refundable, sources of capital, which not only lower the cost of investment but also limit the risk. Commercial institutions, mainly banks, should have much larger influence on innovation development. However, their high expectations concerning loan eligibility and high efficiency of the enterprise limit the opportunities of starting cooperation in case of financing high risk projects.

Table 1

Slightly above half of the researched companies admitted that they expect support at the stage of idea generation and implementation of the innovation. Lower level of interest in this area is explained by BSIs' underperformance. Additionally, entrepreneurs' knowledge about obtaining support in this area is limited, therefore, smaller share of the researched companies reported interest in obtaining support.

The institutions that are crucial for supporting companies at the stage of generating ideas and their implementation are missing. It is presented in Fig. 1 and 2. The results of detailed analyses show large dispersion of answers in case of different institutions, what means that their impact on the functioning of Polish companies, including the increase of innovativeness, is low.

The analysis of data presented in Fig. 1 indicates that companies expect support of advisory institutions at the stage of idea generation. Nearly 30% of the surveyed entities pointed to such institutions; the result was a few times higher than for other business support institutions. The result is quite surprising as such entities seldom deal with creating innovative ideas, but are rather responsible for obtaining capital or preparing the implementation process.

⁴ According to the data of the Central Statistical Office nearly 75% of innovations in Poland are financed from own resources [Central Statistical Office, (2011)].

Therefore, this is the prove of other BSIs' weakness, rather than strong influence of advisory institutions on creating innovative ideas in Polish companies.

The entities that should be responsible for searching for innovative solutions, especially research and development institutions and universities, are low ranked. As few as 9% and 10% of the respondents pointed to these institutions respectively. This proves that the thesis that cooperation between research institutions and businesses is very ineffective and its influence on business practice and companies innovativeness is insignificant.

Figure 1

As the results presented in Fig. 1 show, companies do not perceive business associations as potential partners in obtaining ideas for their innovations. Only 17% of the respondents would search support in such institutions as employers' associations, producers' chambers and associations. At the same time, the exchange of information between companies associated in business self-governments is limited, what also limits innovation diffusion. Innovation impulse from the public sector is equally weak. Only a few percent of the researched entities would expect support at the stage of idea generation from public administration units, both local and central, or in regional development agencies.

As the data in Fig. 2 shows, the companies are also precise in expressing their expectations on the kinds of support they obtain from BSIs at the stage of innovation implementation. Most eagerly, they would address producers' chambers and associations (15% of answers). The situation should be positively evaluated as in both cases these are the institutions that can use their experience to prepare the implementation stage in a proper way. The respondents were relatively frequent to point to public sector institutions to obtain support. In this very case the result should rather be considered as a postulate that makes local and central level administration build the procedures supporting innovation implementation in SMEs.

Figure 2

In case of other business support institutions there were only a few remarks concerning obtaining support at innovation implementation level, therefore, they should be considered as insignificant for the process.

As it was stated above, companies expect support from business support institutions at the stage of financing innovations. Although the predominant source of investment capital for innovations in the researched area is still the private capital, the share of external funds in the total investment is nearly 25% and is still growing [Central Statistical Office, (2011)]. Such a low share of external funds results from much lower, below entrepreneurs' expectations, support with preferential, mainly non-refundable, sources and banks' high expectations concerning securing the investment and its effectiveness.

It is proved in the data presented in Figure 3 which indicates that companies expect support from commercial banks (65%). Other financial institutions whose influence on innovation is very limited, were rated very low. This concerns primarily loan and guarantee funds, venture capital and business angels which were pointed to by only a few percent of respondents. Such a low level of expectations for support at investment financing stage may result from their low level of engagement, the strategy of selective addressing the offers to certain entities and significantly limited knowledge about their functioning and the offered services⁵.

Figure 3

The expectations concerning the support of innovative investments from the public sector, both central and local level. In this case, this concerns primarily the increase of expenditure on preferential financial instruments, which are the greatest incentive for a

⁵ The evaluation was done in 2009 in the Framework of research Project „The accessibility of loan and guarantee instruments in the context of implementing the following activities: 2.1.1 Recapitalization and creation of loan funds and 2.1.2. Recapitalization and creation of guarantee funds in the framework of Regional Operational Programme of the Lubelskie Voivodeship 2007-2013" showed that the level of knowledge about such institutions as guarantee funds, loan funds, venture capital or business angels is at the level between a few to a dozen percent.

company to increase the expenditures on innovation.

3.3. Actual support for companies implementing innovations by business support institutions

The above results present entrepreneurs expectations concerning individual business support institutions. The analyses presented in the present section describe the actual support for companies in Lubelskie Voivodeship which implemented innovative projects. The analysis of the data presented in Figure 4 proves the observations that business support institutions play a significant role in innovation support. As many as 73.2% of companies admitted to obtaining support from at least one such institution, another 10% consider it necessary to obtain such support while implementing innovative projects. However, one should notice that the overall data distort the image, as the analysis presented in table 2 shows that only in case of commercial banks, actual support was common. As many as 58% of companies started cooperation with these institutions, yet in all cases it was the result of obtaining financial support in a form of investment loan. Some entities used the support of commercial banks in order to improve their financial liquidity at the stage of investment exploitation or to use specific payment instruments in purchasing new technologies.

Figure 4

Other business support institutions had much smaller influence on creating innovations in companies in Lubelskie Voivodeship. Relatively high influence of public sector is worth noting. From 10 to 14% of the surveyed companies reported obtaining support from both central and local administration and regional development agencies. The activities of local authorities, whose opportunities to influence innovation development in companies are lower, should be appreciated. The research shows that it is better valued than central administration and many institutions whose mission is to support innovativeness. On the other hand, PARP, the key institution responsible for innovation support in central administration should be

evaluated negatively. Even though it has both appropriate resources and support instruments its offer reached only a few percent of the surveyed companies.

As the data presented in table 2 shows it is relatively common among innovative companies (13%) to use the support of advisory institutions and production chambers and associations. The phenomenon should be positively evaluated, as it proves the opportunities to diffuse innovations. At the same time, the development of modern solutions in one company should generate the need of modernization and adaptation in other companies. Consequently, it is a strong stimulus to increase the demand for innovative solutions in the region in the future.

The presented results also show a limited influence of research institutions, including universities and research centres. This proves the above mentioned diagnosis of lack of cooperation between these institutions with businesses and the failure to translate the results of research into commercial effects. It seems that they are one of the key obstacles in developing innovative solutions in companies because they are the institutions responsible for generating innovative ideas and their possible implementations in companies. Consequently, there is no demand for modern solutions, which should be implemented in Polish companies in an easy and inexpensive manner.

The final observation concerning the research is a scarce influence of financial institutions dedicated to support small and medium companies and to finance modern solutions. There were only individual entities that used services of such institutions as loan and guarantee funds, venture capitalists or business angels. This may result from their lower activity, limited information about their functioning and offer. Relatively significant number of respondents said that they would use the support of these institution in their future innovative projects.

Table 2

Conclusion

Companies that intend to implement innovations can use different forms of institutionalised support. The research conducted in Lubelskie Voivodeship and the analysis of statistical data concerning Poland show that the structure of using BSIs in innovation support is far from the desired value. Out of the whole range of dedicated support services, entrepreneurs are most interested in BSIs' offers while financing innovation projects. They primarily use bank products together with EU subsidies obtained via local authorities, PARP or other institutions. It is alarming that 70% of the respondents declare that they did not use and they do not plan to use any other forms of support in the future. The reasons for such attitude to the sources of financing need further research.

Insufficient cooperation of companies with business support institutions at the stage of generating ideas and implementing innovations is a noticeable problem. Low level of companies' interest in support from universities and research institutions translates to low innovativeness of designing, patenting and implementing new technologies. It is also necessary to broaden the research area in order to show the causes of the existing condition and designing solutions to improve the situation.

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Table 1. Entrepreneurs expectations concerning support from BSI at different stages of implementing innovations

Declaration of using support from business support institutions	Stages of implementing innovations		
	Generating ideas	Implementing innovations	Financing innovations
YES	58%	52%	83%
NO	42%	48%	17%

Source: Own elaboration on the basis of the conducted survey.

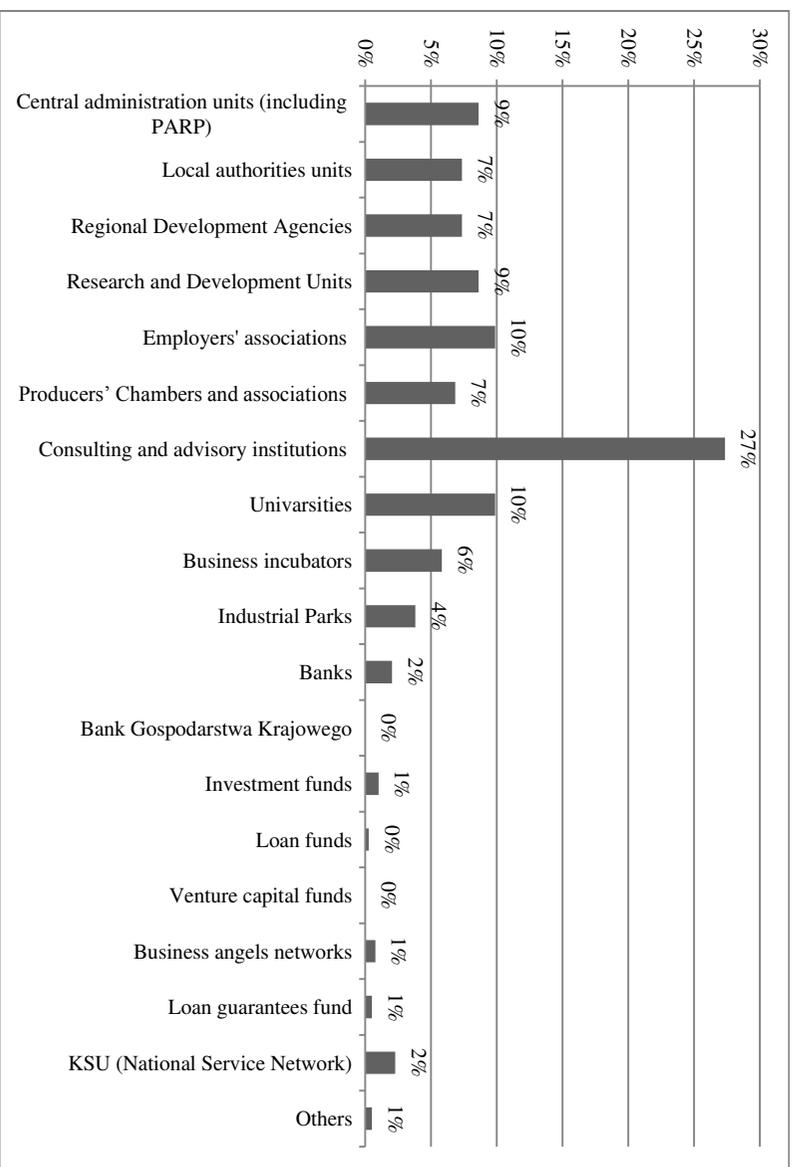


Fig. 1. Entrepreneurs' expectations concerning support from BSI at the stage of generating ideas.

Source: Own elaboration

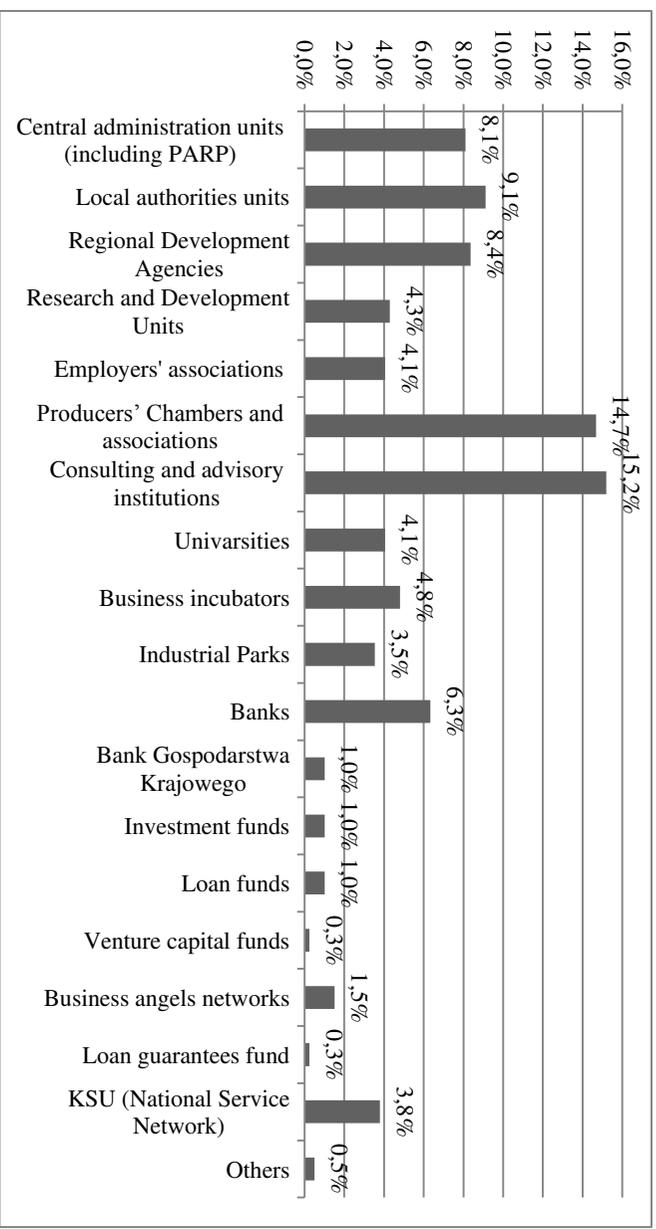


Fig. 2. Entrepreneurs' expectations concerning support from BSI at the stage of implementing innovations.

Source: Own elaboration

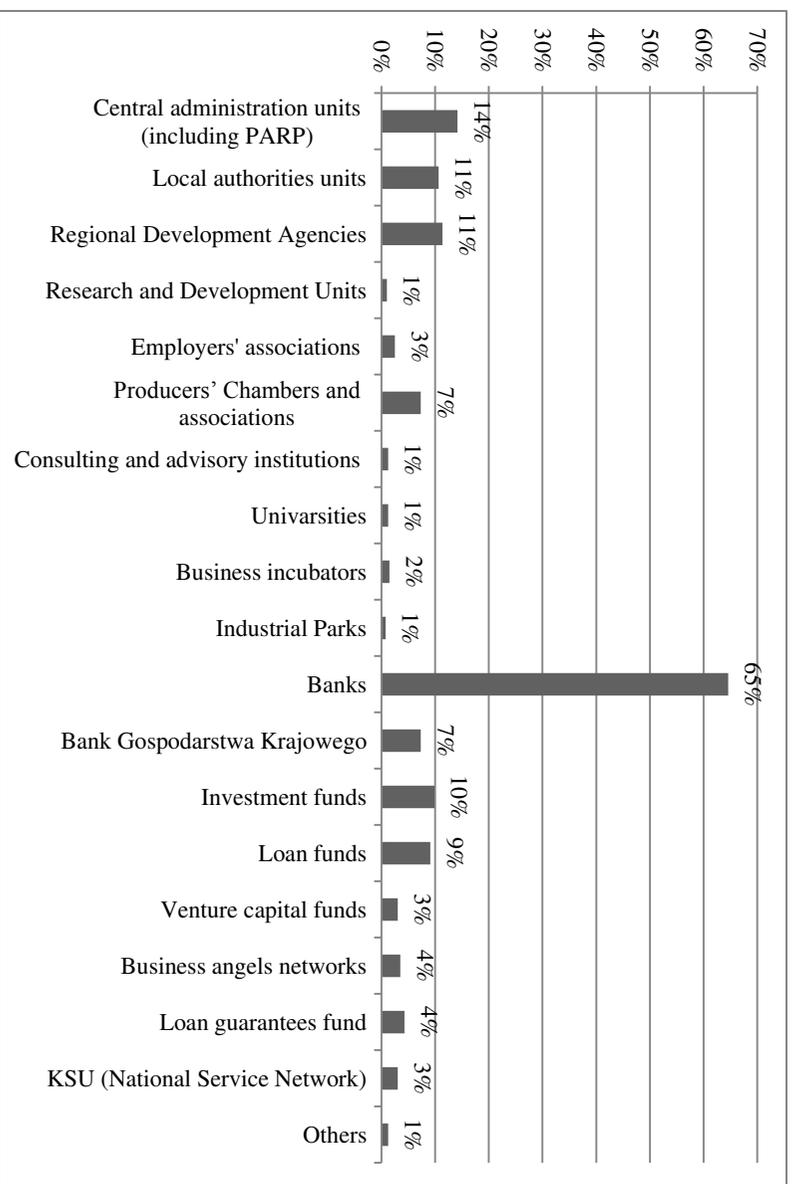


Fig. 3. Entrepreneurs' expectations concerning support from BSI at the stage of financing innovations.

Source: Own elaboration

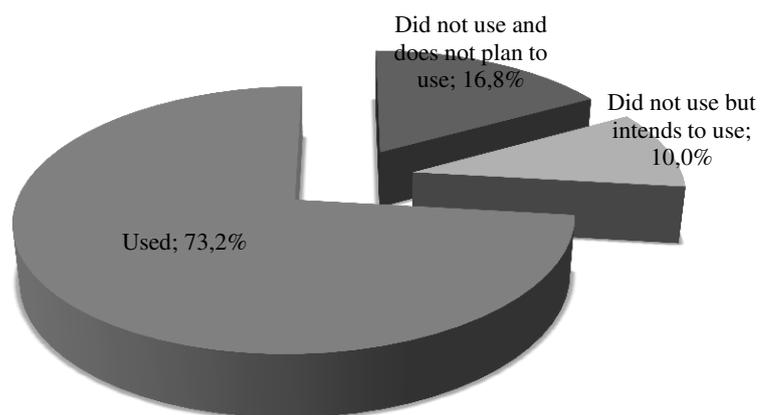


Fig. 4. Actual support for companies from Lubelskie Voivodeship implementing innovative projects with support of business support institutions.

Source: Own elaboration

Table 2. Actual support for companies from Lubelskie Voivodeship implementing innovative projects with support of bussiness support institutions.

Name of business support institution	Companies that did not use support	Companies that did not use support but intends to use it	Companies that used support
Central administration units (including PARP)	65%	25%	10%
Local authorities units	63%	23%	14%
Regional Development Agencies	69%	19%	12%
Research and Development Units	69%	25%	5%
Employers' associations	70%	21%	9%
Producers' Chambers and associations	71%	16%	13%
Consulting and advisory institutions	70%	17%	13%
Univarsities	70%	23%	7%
Business incubators	71%	27%	2%
Industrial Parks	73%	24%	3%
Banks	31%	11%	58%
Bank Gospodarstwa Krajowego	69%	25%	6%
Investment funds	71%	23%	6%
Loan funds	71%	27%	2%
Venture capital funds	69%	29%	2%
Business angels networks	67%	31%	2%
Loan guarantees fund	69%	26%	4%
KSU (National Service Network)	74%	25%	1%
Others	73%	26%	1%

Source: own elaboration