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BUSINESS FUNCTIONS APPROACH TO INNOVATIVE AND NON-INNOVATIVE BUSINESS COMPARISON IN LATVIA

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Abstract: State system of innovative business support was created in Latvia during last years and the first conclusions about the efficiency of this system can be made at present time. To evaluate the efficiency of innovative business support system it is necessary to compare in some way innovative and non-innovative companies. The main task of this article is to provide the frame for innovative and non-innovative business comparison and describe on the base of this frame the main differences between innovative and non-innovative companies in Latvia at present time. The main result of investigation is the conclusion that at present time innovative business has certain advantages for development in Latvia, especially in regions, because the main weak point of innovative business - high risk - is oppressed by general business risk growing due to economic crisis.

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The specific features of innovative business

According to most popular definition innovative business is the implementation of the last achievements of science and technology for new products and services creation and promotion to the market. There are many differences between the standard (non-innovative) business and innovative business from business administration point of view. At first, standard business plan based approach to business administration in innovative business is almost impossible. It is very difficult to make correct market segmentation for new products and as result it is impossible to create certain business plan. At second, in addition to standard business risks innovative business has new products and services related specific risks, which makes business solutions more difficult. At third, requirements for personnel in innovative business are much stronger than in non-innovative business and principle "It is necessary to remove too sensitive persons from business", which is not common for non-innovative business, is one of the most important principles in personnel management. In addition to above mentioned important differences between innovative and non-innovative there is the whole set of second order differences, which are also significant for innovative business development. To provide detail classification of such differences we suggest to use approach which is based on high level business functions. We select seven main first order business functions:

- Organizational structure creation;
- Business administration;
- Finance management;
- Personnel management;
- Material resources management;
- Main operations;
- Marketing.

There are from 5 to 10 second order business functions inside each of first functions so that total amount of second order business functions is about 70. In the similar way the amount of third level business functions is about 400. Business function based approach is very popular among IT companies which produce business support software and there are several methodologies to describe business functions hierarchy. It is convenient to use business function approach to identify differences between innovative and non-innovative companies because the performing of all business functions there are significant differences between standard and innovative business. In this brief article we will consider only most important differences in first order business functions which we identified spreading different questionnaires among innovative companies, making interviews with heads and personnel of those companies, organizing different innovation business seminars.

Organizational structure creation. The specific feature of innovative business is that is closely related with academic activities of universities. In many cases roots of innovative companies lie in academic research laboratories. It is necessary to underline that it is necessary to make special efforts to stimulate contacts with innovative business in universities. Most European universities traditionally are more pure-science oriented and less than American universities participates in business activities. As it was mentioned by J. Saperstein and D. Rouach, "Europe has a tremendous potential for jointly developing leadership in specific areas such as telecommunications and mobile phones. We have a huge potential if we can create what has been missing in Europe, which is the relationship between university research and industry."

To stimulate connections between universities and innovative business the state program of universities based

business incubators creation is performed in Latvia at present time. At university study process and scientific work became more practical oriented and added by innovative business study courses, which are business oriented and should be finished by business idea development. After business idea formulation incubation process is started. Normally it consists of three stages - at the first stage it is necessary to create a working prototype to be sure that business idea works in principle, at the second stage it is necessary to create industrial technology, to evaluate expenses and incomes, to create business plan, at the third stage it is necessary to make all preparation for company creation and solve all organizational, financial, personnel and other problems.

After such innovative company is created, the business process is started, which normally also consists of three stages. The first stage is investment stage, when company works without any incomes, at the second stage company starts first sells, but investments are not returned, at the third stage company cross break-even point, returns all investments and since that can be considered as independent market participant.

University based business incubators provides significant support to innovative companies, this is very important especially on the first stages of company's life cycle and it is difficult to start innovative company without such support. Close relations with universities influence organizational structures of innovative companies and due to last changes in legislation, which allow to universities to participate in statute capital of innovative companies, in nearest future it is possible to expect, that universities will directly participate in innovative companies organizational structure creation.

Business administration. In principle administration cycle in innovative companies consists of the same stages, that non-innovative business - tasks formulation, planning, solutions acceptance, works performing, control, information exchange organization. As it was told above, it is almost impossible to use standard business plan approach in innovative business because for the new product you can not make correctly even the first steps of business plan creation. For innovative business the environment is so changeable tasks formulation is possible only for short periods, strategic management is possible only after innovative company receives stable market position. Experience shows, that new innovative companies does not workout long time plans and restrict themselves with short time planning. Such behaviour is not recommended for non-innovative companies, but for innovative companies allows concentrate efforts on more important things. Significant differences in planning process leads to differences in solutions acceptance. According to our experience innovative companies very rare use standard methods to solve even standard problems - instead of rating systems implementation, detailed analysis of alternatives, criteria implementation they usually use intuitive estimations only. From the point of view of non-innovative business such approach reduce the quality of solutions and is not acceptable, but in innovative business such approach is possible because allows to accept solution in a very short time, but time factor in innovative business is much more significant, than in non-innovative. Differences in principles of work performing in innovative and non-innovative business are significant also - in innovation business work organization is more flexible, less formal, work is more intensive. Innovative companies pay less attention to control procedures, than non-innovative companies.

Finance management. Differences between innovative and non-innovative companies in finance management are related mostly with higher risk and higher profit of innovative business. Higher risk is the main reason for difficulties to find initial investments and three main sources for innovative business start capital are called sometimes FFF - Family, Friends, and Fools. Higher profit attracts investors at the latest stages of life cycle, when innovative company demonstrates stable growth. Important differences in financial management are related with expenses structure.

Personnel management. Personnel management, which is important success factor in non-innovative business, became main success factor in innovative business. High risk, pressure of complexity and lack of time, very uncertain perspectives, and the lack of profit at the first stages makes additional psychological pressure on the personnel of innovative companies and requirements to quality of personnel management here are much higher than in non-innovative companies. Special attention should be devoted to psychological stability of personnel in innovative business.

Material resources management. In Latvia almost all scientific equipment is outsourced by innovative companies from universities. As mentioned before, innovative business in Latvia is very closely related with universities and research centres. There is a set of complicated problems related with science commercialization and the right to use the laboratory equipment for innovative companies needs is one of them. Usually contract on laboratory equipment use is signed by university and innovative company at the early stage of investigations and in the case of success both partners use this equipment together until innovative company is able to buy own equipment. There are no serious problems for innovative companies with material resources which are not laboratory equipment - they are non-expensive and all business incubators insure their companies with offices, computer equipment, furniture and different services including bookkeeping.

Main operations. There are significant variations in the choice of main operation among innovative companies. Largest part of them makes attempts to do things which nobody else is doing, remaining are trying to do known things in different way than other market participants - faster, cheaper or with higher quality. If innovative company is able to find ways to make business, which is unique and based on new achievements in science and technology, for certain period company has serious market advantages, but sometimes it is not ready to keep its leading position when competitors starts to produce similar products and services. Several such cases are known in Latvia during last years. It is necessary to underline, that innovative business in period of 2005-2009 received more state support in Latvia than it was before and positive perspectives can encourage new innovative companies.

Marketing. From marketing point of view innovative business has important specific feature - from the first step marketing of innovative product should be international.

Experience shows, that for Latvian innovative companies it is easier to find foreign customers than domestic and there are two main reasons of this. The first reason is than labour force in Latvia is cheaper than in Europe and Latvian companies therefore has advantages comparing with European competitors. The second reason is that European countries have more developed industry than Latvia and significant demand for innovative solutions comes from industrial enterprises.

Innovative business in regional environment

Critical success factors for innovation business development in regions. There are several factors which are considered by innovative companies as critical success factors for innovative business development in regions. The first critical success factor is the existence of University or strong enough regional higher education institution in the region. As it was mentioned before, research institutions of universities are very important for creating new innovative business idea. The second critical success factor is the critical mass of researcher with doctoral degree in certain technological area. Experience shows that researches with master degree are not qualified enough to be leaders of strong research groups. The third critical success factor is organizational and financial support from local business and municipality. If university, research centre or science park have no support from local authorities, it is difficult to wait for positive results. Regional environment is the main source of human and material resources for innovative business.

Research of possibilities of innovative business in Kurzeme region (Latvia). In year 2007 the project "The investigation of new possibilities in labour market in knowledge based society from human resources and long life education point of view in Kurzeme region" supported by European Social foundation was realized by Ventspils University College together with partners - Riga International School of Economics and Business administration and Liepaja City Council, Saldus District council, Kuldiga District council. Main goal of the project was to investigate new possibilities in labour market and some of researched topics were related to innovative entrepreneurship.

There were interviews of 120 companies in Kurzeme region and main subjects of research for companies were the planning of development in companies, innovations and innovative solutions in companies, knowledge or information sources for innovations in companies. According to this investigation for 18% of respondents share of profit for development ranges from 76 to 100%, for 16% - from 31% to 75%, for 22% - from 11% to 30%, for 17% - from 1% to 10% and 18% of respondents said that their share of profit for development is 0%. Experience shows that if innovative company shares less than 60% of profit for future development probability to survive for such company is less than 50%. Main constraints of economic activities described by company presidents are as follows:

27% - labour shortage, 22% - insufficient qualification of labour, 17% - insufficient amount of financial resources. Innovative companies mentioned other constraints of innovative business activities also: 69% - big expenses; 68% - lack of qualified workforce; 47% - economical risk; 31 % - lack of technologies and technological equipment.

Since 2007 situation on labour market has changed in Latvia because of unemployment growth - level of unemployment doubled in 2009 form 8.3% in January to 16.1% in December (123127 persons) and 11.8% of them have higher education. It is necessary to underline, that economic crisis in Latvia is more deep than in other Baltic countries - last data of company Lursoft show that turnover of 29 556 Latvian companies decreased by 36% related to 2007, but profit after taxies by almost 80%.

Conclusions

The business functions based approach provides a very convenient method to compare specific features of innovative and non-innovative business. Hierarchy of business functions is complicated enough and allows describing thin details and specific features of innovative business. It helps to analyse innovative business problems and weak points in each specific case and by this way work out recommendations for innovative business development. For Latvia innovations and innovative business is a tool to achieve the average European level of prosperity and simultaneously is a tool to overcome the sequences of global economic crisis. Innovative business is very important for regional economic development because it allows decreasing the difference in GDP/capita between Riga and regions.

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