

INNOVATION OF POLISH AND GERMAN COMPANIES

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Abstract: *The changing environment and constantly growing and already global competition compel companies to keep innovating. The ability to implement innovations faster than rivals makes it possible for them to achieve the best market positions. A high level of innovation, however, does not always have to be the domain of the largest business entities. This article discusses completely different companies, which, though being smaller, and also somewhat hidden, occupy key positions on global markets. The level of their innovation often exceeds that of large corporations. The research, a fragment of which is presented here, was conducted on the German and Polish markets. Due to the specific features of this group of companies, the selection of the sample was deliberate. The research objective of the article was to assess the innovative activity of Polish and German hidden leaders.*

Keywords: INNOVATION, POLISH COMPANIES, GERMAN COMPANIES, MARKET LEADRES

1. Introduction

The economic development of many European countries is dependent not only on the development of large corporations, but also on a group of smaller entities that, being often world leaders, provide a significant level of exports in their home country. Professor Simon emphasised that dependence, wondering why the German and Scandinavian markets are so strongly dominating in exports. The researcher noted that a huge percentage of exports in Germany is dependent on a certain group of medium-sized entities, which in general are not familiar to the majority of the society. Deepening his research, Simon named these companies as 'hidden leaders', defining them as companies operating in niche markets (somewhat mysterious), generating revenues below three billion euros and occupying one of the first three positions on the global market in terms of the possessed share in it [Simon, Dietl 2009, p. 35]. Simon identified such companies on the German market and investigated thoroughly the way they operate. Similar research but conducted on the Polish market was done by a research team at Nicolaus Copernicus University in Toruń. In 2011, a total of 78 of such companies was identified in Poland, however 58 of them agreed to participate in the study. Subsequent searches for new Polish hidden leaders conducted in 2015 ultimately led to the identification of 94 such companies. The research on this specific group of companies conducted on the German and Polish market allowed us to draw common conclusions on the strategy of their operation. All hidden leaders share certain common characteristics, and the most important one is certainly their mysticism. Almost nobody, apart from business partners and specialists in a given industry, knows their names. Hidden champions are characterized by setting extremely ambitious goals. Each of them from the very beginning strives to take the first position in the global market. It is this goal that becomes the foundation of their success. The founders or managers of these companies are extremely ambitious. The continuity of leadership, and the great commitment that is also passed on to employees, make these long-term goals fully-achieved. A rigorous selection of employees means that they employ simply the best and extremely efficient people who identify with the company very strongly. Hidden champions have an extremely deep value chain and a very high degree of vertical integration in production. They conduct intensified research and development activities, and they are extremely cautious when it comes to outsourcing or strategic alliances. Although hidden leaders are quite authoritarian leaders as concerns principles, they give quite a lot of freedom to their employees to make and implement decisions. This is reflected in their operations. To maintain their strengths and not to lose them during intense growth periods of the company, these entities implement decentralization. They treat it as the most effective way to preserve their values. A very important pillar in the activities of all hidden champions is certainly concentration. Hidden leaders define their markets narrowly, often operate in niches, even becoming their owners. They choose a specific course of action and

use their resources to follow it, trying to reach the top. Hidden champions with their narrowly defined markets would be restricted to small sizes if it had not been for the phenomenon of globalization. It is them who use it extremely effectively. Their international operations mean that even niche markets can achieve large volumes. However, this process requires them to reveal very high persistence and resistance. Both leaders and employees overcome numerous national and cultural barriers occurring within this process, thus becoming citizens of the world. The greatest strength of hidden champions is their attitude towards the client. In that respect hidden leaders constitute an unachievable benchmark. They care about their closeness and long-term relationships with their clients in all spheres of activity. They are perfectly aware that proximity with the client can lead straightforwardly to creating a competitive advantage. This article, however, raises a particularly important issue - innovation which is being followed by all of the entities studied. It is impossible to keep leading market positions with products that are of inferior quality when compared with competitive ones. Hidden champions, of course, realize this and treat innovation as the foundation of their successes. The research objective of this article is to evaluate the innovative activity of Polish and German hidden leaders.

2. Innovation of companies - the theoretical approach

The literature on the subject of innovation is extremely abundant and diverse. This is related to, for example, the fact of a diverse approach to innovation shown by researchers of many professions, or to the treatment of innovations in a broad or narrow way. According to Ch. Freeman [1994, p.7], the inclusion of innovation in the strict sense means the first use of a novel product, process, system or device, and according to E. Mansfield [1968, p. 83] also of an invention. Defining innovation narrowly most often underlines the importance of technological changes that are primarily relevant to production processes [Janasz 2003, p. 53]. In turn, innovations in a broad sense relate to every idea, thing, attitude that stands out from all existing to date, especially in the context of quality. J.A. Schumpeter [1960, p. 322] identified innovation with the introduction of new products into production or the improvement of already existing ones, with the opening of a new market, using a new way of selling or shopping, using new raw materials or semi-finished products and introducing a new production organization. According to P. F. Drucker [1992, p. 41], innovation goes beyond the technological dimension, adopting the nature of social and economic changes. J.A. Allen also takes a broad approach to innovations [1966, p. 7] and claims that 'innovation is the introduction of new products, processes or procedures for widespread use'. Also M. E. Porter [1990, p. 45] treats innovations as technological improvements and better methods, as well as ways of doing something; this may be revealed in changes in the product, process, new approaches to marketing, new forms of distribution or new management concepts. M. E.

Rogers [2003, p. 12] is also a follower of taking the broad approach to innovations and claims that an innovation is 'an idea, practice or object that is perceived as new by a person or other acquiring entity'. Innovations can therefore be understood as a more or less original novelty introduced in many important and at the same time basic areas of business activity.

Innovation is the culmination of the process of creating a new reality, consisting in introducing new things in the way of proceeding or organizing and in a product or other instrument of influencing the market [Glabiszewski 2016, pp. 34-35]. Due to the quite broad treatment of innovations, which is nowadays a mainstream if not a dominant approach - certainly universally acceptable, the subject literature offers a very diverse classification of innovations. The article draws on the classification which was included in the generally accepted international methodological standard of statistical surveys in the field of innovation and was presented in a manual issued by the OECD - the Oslo Manual. The typology of innovations contained in it differentiates the following four major types: marketing, also referred to as a market one, organizational, product, and process [Oslo Manual 2005, p. 47]. There is a synergy between all these innovations. The implementation of marketing innovations increases the organization's ability to create new products and services in the form of an individualized offer that allows comprehensive customer satisfaction and significantly contributes to the success of technological innovations [Schubert 2011, p. 211].

The focus in this article is on innovativeness of companies. It should be noted, however, that many researchers identify this concept with the concept of innovation. If one comes across a different view, then it treats innovation as a certain attribute of the company, its ability to innovate. It is the ability to create something entirely new or make significant changes, acting in a way that uses this ability [Hilami, Ramayah, Mustapha, Pawanchik 2010, p. 557]. C. B. Dobni [2010, p. 334] emphasizes that the innovativeness of an organization can be even more broadly defined and include the willingness (inclination) to be innovative and the ability to introduce new products, services, ideas, or their implementation which leads to improved business performance. In this case, it can be assumed that any innovative changes that lead to achieving higher quality and lower costs within a time period that is shorter than that of rivals will increase the competitive position of the company. Innovation is a key factor in the competitiveness of business entities, and only those companies that regularly undertake the introduction of all kinds of innovations have a chance to occupy leading positions in global markets.

3. Innovation of Polish and German hidden leaders – the outcome of the research conducted

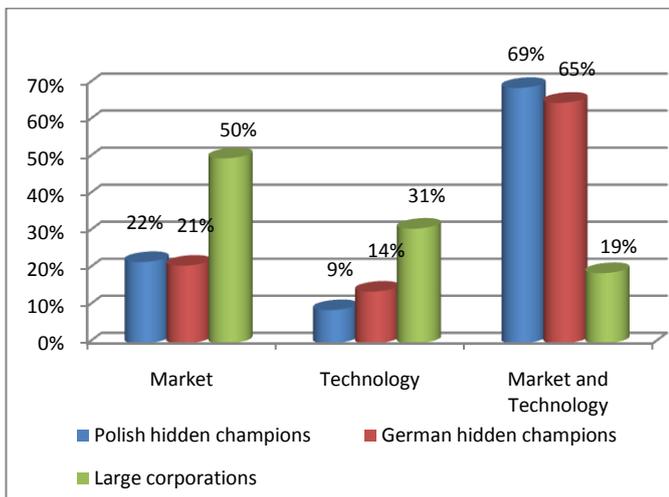
This article is based on the results obtained from the research conducted on the German market by Professor Hermann Simon and the results of own research carried out on the Polish market. The first survey on a group of Polish leaders was conducted in 2010-2011 and apart from the sheer identification of the entities in question, an indirect survey was conducted using the telephone interview method. Another study was conducted in the years 2015-2016 using the internet survey method. A total of 71 business entities took part in the survey, which constituted 75% of the target sample.

A. Farazmand [2004, pp. 5-8] argues that innovation is a strategic instrument serving not only to build but also to expand companies' competitive abilities. Innovation is the key to progress and development in all spheres of community life, administration and technology. Innovation is a change in the pattern of the product, the method of marketing, the offered price, customer service or a change in the organization and methods of management that permeates all areas of the company's operations [Drucker 1992, pp. 42-43]. The results of the research conducted showed that this understanding is adopted by hidden champions. Their innovations do not only concern products or technologies, but also processes,

systems, marketing, and services. Innovations in processes often go beyond cost reduction, leading to higher quality or greater convenience. Innovative companies identify and anticipate customers' needs actively and then respond to them appropriately, and thus create greater value for buyers [Liczmańska-Kopcewicz, Glabiszewski, Grego-Planer, Zastempowski 2018, s. 3683]. It should be emphasized that in the case of hidden champions innovation is not always associated with very radical changes. Of course, in their activities breakthrough innovations - on average at least four product and two technological innovations over a two-year time period [Grego-Planer, Glabiszewski 2016, p. 28], were often even the basis for creating completely new markets, however many hidden champions simply benefit from constant improvements. This is just the superiority of hidden leaders. Each of their products is close to achieving perfection. Hidden champions focus on doing many small things much better than competitors do, and this requires improving their products on an on-going basis.

As much as 85% of German and 75% of Polish hidden champions see themselves as technical leaders, *i.e.*, as a company that is the most innovative in terms of technology in its market. The high level of innovation can also be demonstrated by their expenditures on research and development. The increase in spending in this area is twice as high as the average in other companies. German hidden leaders spend 5.9% of their revenues on research and development activities, while Polish ones 6.05%. One in five of these companies exceeds even 9%. The innovative capacity of hidden champions can also be considered in terms of patents that are their property. The number of patent applications for 1,000 employees in large corporations is 5.8, while in the case of hidden champions it amounts to 30.6. Many hidden leaders treat their innovations protected by patents as a basic competence. It happens quite frequently that the responsibility for patents in these companies is taken over by the top management, whereas in corporations only the adequate managerial staff deal with this activity. The difference is also that the share of patents implemented is much larger in smaller companies. Therefore, hidden champions use the results of their research and development more effectively than corporations do.

Looking at the importance that technology plays in the activity of hidden champions and the volume of patents being their property, the conclusion appears to be that technology should be their greatest driving force. However, hidden leaders demonstrate an extraordinary ability to see and integrate two forces that drive their innovation. They treat both technology and the market in an equal way. These forces do not have to be mutually excluding opposites. Both market knowledge and customer needs as well as relevant technical competences are needed for effective innovation. Hidden champions are focused on both the product and the client. They perfectly use their internal specialist knowledge as well as external opportunities appearing on the market. As much as 65% of German and 69% of Polish hidden leaders indicated that they treat the market and technology as equally important driving forces. Only 21% on average say that the market is the major force. The lowest percentage of them, that is 14% of German and only 9% of Polish hidden champions indicated technology to be this driving force. The situation in large corporations looks completely different. Only 19% of these companies recognize market and technology as equivalent forces. The market was perceived as the main driving force for innovation by 50% of respondents, while 31% of these companies indicated technologies. The driving forces of innovation as indicated by German and Polish hidden champions and by large corporations are shown in graph 1.

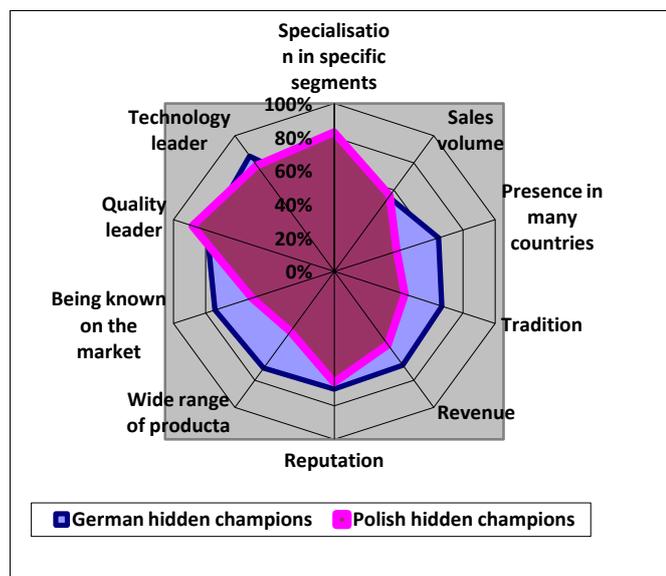


Graph 1. Driving forces of innovation as indicated by large corporations and by German and Polish hidden leaders

Source: own study based on H. Simon, M. Dietl, 2009, p. 215 and D. Grego-Planer 2016, pp. 137-138.

A very important aspect in the innovative activity of hidden champions is the significant role of the top management. The top management participate in the entire innovation implementation process, not only in its initial stages. This is obviously due to the huge commitment of the management in the business and often due to their relevant extensive knowledge and practice. They frequently constitute the most active driving force of innovations. The management, however, realize the importance of people who work with them in improving products or processes. It is just adequate and highly involved staff that is the key to success. The innovative activity of respondents most often concerned the launch of new products on the market, upgrading of previously manufactured products, modernization of previously used technologies, entering new markets geographically, entering new market segments, internationalizing operations, or changing the organizational structure. Innovations included almost all aspects of their operations, beginning from the sphere of production and ending on the finance sphere.

Certainly, concentration and globalization constitute the two basic pillars of hidden champions' activities. However, it is effective innovation that allows them to strengthen their competitive position. Despite their limited resources, hidden leaders are extremely effective innovators, which allows them to occupy key positions on global markets.



Graph 2. German and Polish hidden champions - determinants of perceiving their companies as world leaders

As shown by the research conducted, both German and Polish hidden champions consider themselves to be the leaders of quality or technology. The degree of their innovation is almost identical. Graphs 2, however, still shows the differences between Polish and German hidden champions. Certainly, Polish hidden leaders have great potential, but still in some aspects they have to catch up with their German counterparts.

4. Summary

German and Polish hidden leaders are certainly impressive companies. Concentration, consistent internationalization of activities, and at the same time the use of strengths such as customer proximity, employee loyalty or continuity of leadership, which are natural features of smaller and especially family businesses are just a few important and similar aspects in their operations. However, this extremely high level of innovation is the key to their success.

Companies today have to deal with increasingly faster changes taking place in the environment [Cyfert, Belz, Wawrzynek 2014, pp. 15-26]. One of the key features of the organization is its ability to respond flexibly to emerging changes, as well as the ability to use the acquired knowledge effectively in a shorter period of time than rivals do [Liczmańska-Kopcewicz 2017, p. 4]. It is innovation that, in addition to flexibility and risk-taking skills, is considered to be an extremely important attribute affecting the implementation of this knowledge [Han, Park 2017, p. 144]. Hidden champions are aware of the fact that being a leader means staying ahead of the competition. The companies surveyed can be classified as extremely innovative ones. This is evidenced by such aspects as the number of innovations introduced, substantial amounts of money spent on research and development activities, or continuous tracking of market changes with a view to discovering new needs. Effective innovative activity is the foundation of success achieved by the examined group of companies.

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