

## **THE FACTORS DETERMINING INNOVATION-BASED ATTITUDE OF LATVIAN SMEs TOWARDS SUSTAINABILITY**

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**Abstract.** The goal of the article is to show problems connected with innovativeness of small and medium-sized enterprises which is necessary for their sustainable development. The attitude of entrepreneurs towards innovations is to be considered a necessary precondition for innovative processes. The competitiveness of an enterprise is guaranteed by combining resources, technologies and business management skills, therefore innovative processes should encompass all the abovementioned factors. The authors describe the results of innovative activities of Latvian entrepreneurs and examine factors which influence innovative activities of SMEs. The innovative potential of an enterprise is influenced by: the individual, the expression of creativity and practical implementation of innovative solutions. The knowledge of an individual, combined with the possibility to apply it in a result-oriented activity is an important precondition for sustainable development of an enterprise.

**Keywords:** SME, innovation, creativity, knowledge, influencing factors, attitude.

### **1. Introduction**

The proportion of small and medium-sized enterprises (SMEs) is significant not only in the national economy of Latvia but also in the economic area of the European Union (EU). Out of approximately 20 million companies operating in the territory of the EU, 99 % correspond to the status of an SME [1]. Enterprises constitute a very heterogeneous group, ranging from global companies oriented towards high technologies to enterprises working in traditional sectors and operating solely in the local markets.

For a long time the traditional understanding of innovation processes was connected with new technologies whereas those were based on research and findings. At present innovations cannot be envisaged without social cooperation between enterprises and other market players, where knowledge and skills occupy a decisive role in the promotion of innovations. Innovations take various forms and, alongside with the traditional forms – such as technological innovations, – new business models, business organizational forms, innovative marketing and project solutions are developing, by causing a real challenge for preservation of competitiveness and sustainable development of an enterprise [2].

Innovations are a necessary precondition for a knowledge-oriented business which promote not only the economic competitiveness of the whole country,

but also the welfare of each entrepreneur and the society.

Innovation process may take the form of purposeful novelties to improve the quality of products or the efficiency of processes, the form of an improved organization of work, the promotion of creating new relations between suppliers and consumers. Few Latvian enterprises introduce innovations and most of those doing so import rather high technology equipment, instead of performing scientific research themselves or acquire findings from Latvian or foreign research institutes. Obviously, SMEs will not become centers of well remunerated employment, economic competitiveness and exponential development unless there is a dense communications network of larger rapidly growing (local or foreign) enterprises [3].

The competitiveness of an enterprise is developed by combining resources, technologies and business management skills, and therefore the innovative processes should encompass all the abovementioned factors. A combination of leadership, culture and appropriate organizational structure oriented towards rational use of employees – the most important resource - nowadays is to be considered an essential line of innovative activities in any enterprise.

The aim of the paper is to study the results of implementation of innovative process in Latvian national economy, as well as to find out factors influencing innovative activities and identify problem areas in Latvian small and medium-sized enterprises.

The empiric method (analysis of texts and documents) and the method of theoretical research (analysis of the statistical data) are applied.

## 2. Identification of the problem of attitude of SMEs towards innovations

An enterprise may be considered an instrument for the development of the economic system, introduction of innovations, growth and changes [4]. The most common aim of creating and organizing an enterprise mentioned in literature, is profit. An enterprise is not created focusing on a short period of time, therefore the ability to gain profit is linked to business development, where the innovative function plays an essential role. Important is not the fact whether an enterprise simply produces cheap economic benefits, but the activities of the enterprise that should be oriented towards creation of more qualitative and at the same time cheaper products. An enterprise as a system is able to generate ideas which are implemented and are turned into products and services. A small enterprise does not need to become large, thus it is necessary for it to raise efficiency of its activities. Most innovative solutions are formed as a result of an independent, durable and purposeful search for innovative possibilities under certain circumstances. There are several internal factors hindering implementation of innovative processes within an enterprise, namely: conservative culture; bureaucratic structure; communication hindrances and administrative inflexibility [5].

Business activity is characterized by regularity, purposeful management of processes and result-oriented activities. One of world's leading management theorists P. Drucker points out that the majority of small businesses are unable to become innovative because they are not directed by „an entrepreneur”. C. Gray in his turn, stresses that small and medium-sized enterprises distinctively adapt themselves to changes in the external environment, they do not carry out strategic activities; this is especially obvious with regard micro enterprises (up to 10 employees) [1]. J. B. Quinn considers that the innovative processes of small enterprises depend on the accessible information about innovative solutions. Complex innovative solutions are beyond the scope of small enterprises not only because of lack of financial resources, but also lack of skills necessary for implementation of innovative processes has to be considered as a hindering factor. Small enterprises just like the large ones engage into creative activities, however their resources are limited. Between 90 % and 99 % of the implemented innovations are unsuccessful, however they are widely used, because there are many small enterprises, however they do not receive as much attention as the large companies [6].

D. Dougherty considers that the understanding of innovation process and the concepts connected therewith are not conceived unambiguously. An inno-

vation includes all the activities going on in the society from education to scientific research, protection of intellectual property rights, production organization, market research and realization of one's production on the market. This process is overlapped by all the activities concerning streamlining of business environment and establishment of innovation support structures [7]. An opinion exists that an innovation is a technological solution of an invention or a creative implementation of an idea, however, D. Dougherty stresses that an innovation may be at issue also where elements which have not been used previously but which correspond the standard procedures, are integrated in the product creation process [7].

The innovative activities of small enterprises are simultaneously influenced by the attitude of the owners and managers towards innovations and unwillingness to accept widely recognized innovative solutions as a challenge for their competence [8]. M. Freel has come to the conclusion that the creative innovative potential and innovations of SMEs are limited or they are oriented towards improvements of products [9].

The development of an enterprise and sustenance of competitive advantages created in long-term perspective are connected with the ability to manage resources. According to J. Barney and others, there are types of resources that ought to be developed, however it also promotes increase of competence. Resources that ought to be developed are: reputation, technologies, proficiency of employees. The enterprise develops potential which is based on competent management of these resources. The existence of resources, by itself does not guarantee the advantages of competitiveness [10]. P. Drucker admits that small enterprises which purposefully define their future development do not remain within the category of small enterprises for long. However, in practice it is often forgot about the influence of an entrepreneur – innovator on the development of the society [11]. There are certain circumstances that develop on enterprise or sector level which direct the entrepreneur towards innovative solutions. According to P. Drucker those are the following: unexpected events; discrepancies; intentional deficiencies in the processes; changes in the branch or in the market, whereas the preconditions of the social and intellectual environment are: demographic changes; changes in the value system and opinion; new knowledge [11]. At enterprise level the carrier of knowledge is the entrepreneur himself and the persons employed by him. A research conducted in Korea in 2000 showed that, in enterprises where manpower is considered a resource bringing competitive advantages as well as a resource which is «hard to imitate», there is a greater possibility of obtaining good results [12].

New ideas and new work methods are basic elements for sustainable business success. Peter Fisk considers that innovations are not limited to product development and technologies they are an overall entrepreneurial challenge. Every enterprise – large or

small – can change something or do something significant. Of course, not every enterprise becomes commercially successful on the market with its ideas. Nonetheless, small enterprises may often be more successful in terms of innovations than the large ones because they do not have to carry along the “luggage” of large enterprises [13].

Jeffrey Pfeffer – professor of Organizational Behavior in the Stanford Graduate School of Business – considers that no one becomes successful by copying others. History and traditions limit innovations and creativity. Moreover, something that suits one enterprise may prove to be inapplicable for some other one [14]. Jonas Ridderstrale is of the opinion that a successful business is a business which surprises and energizes, not the one which imitates. Company’s capacity to surprise and energize depends on three capitals – intellectual, psychological and social capital [15].

If there is no orientation towards professional management culture, introduction of new approaches and methods in the organizational management of the enterprise is affected. The various levels of education, professional background, culture, interpersonal skills and potential, experience and goals of managers of small enterprises do not allow for the use, in certain circumstances, of one optimal strategy for all enterprises [16].

### 3. Analysis of the results of innovative activities of Latvian entrepreneurs

In order to evaluate the innovations of countries around the globe the index GSII (Global Summary Innovation Index) is used. The results of the survey are presented in four groups of countries – innovation leaders, next-best performers, followers and the lagging. In accordance with the GSII the leaders in the innovation sector among the Member States of the EU in 2005 and 2006 were Finland, Sweden and Switzerland. Latvia is in the group of lagging countries in the innovation sector – in 2006 its GSII was 0.21 point. The leader Finland has a GSII of 0.76 points [16].

In the European innovation survey the innovative capacity of countries is evaluated by SII (Summary Innovation Index). The countries are divided into the following groups: innovation leaders, innovation followers, the trailing, the catching-up. Latvia is in the group of the catching-up countries with an index of 0.21, which falls behind EU average, which is – 0.45. A positive factor is that within the past 5 years the SII dynamics of Latvia has been faster than in the EU on the whole [18]. It is positive that the residents of Latvia, just like Finnish, Polish and German respondents have expressed the willingness to introduce innovations [19].

A research of the Statistical Office of the European Union „Eurostat” has confirmed that innovations are used only by 17.4 % of all Latvian industrial enterprise and 17.6 % enterprises operating in the ser-

vices sector. Those are the lowest innovation indicators in Europe. In average only 18.6 % Latvian enterprises are innovative, whereas in EU countries the average indicator is 45 % [19]. At present the innovation system in Latvia is underdeveloped and does not ensure active involvement of companies in research and innovation processes. Until now the national economy to a large extent was based on usage of cheap manpower which ensured low costs. However, as the costs grow, the competitiveness of enterprises is cut down and one has to look for new possibilities both for up-keeping competitiveness and further development of enterprises. Nonetheless the actual proportion of innovative enterprises could differ, because it is not quite sure whether entrepreneurs understand the term „innovative” properly. The understanding on implementation of innovations is basically limited to purchase of new equipment. There is a view that the organizational capacity of an enterprise is a decisive prerequisite as to whether or not the process of creative activity occurs in the enterprise. To make it simple, enterprises with higher organizational structure tend to involve themselves in creative activities more than enterprises of a less complicated structure. This coincides with the conclusions provided for in a recent review of the Foreign Investment Advisory Service (FIAS) of the World Bank, according to which enterprises with wider foreign or international links more frequently involve themselves in creative activities. The internal force of the enterprise allowing for to „break the cocoon” and to look over the horizon is an essential condition for launching innovative processes. Innovation of processes is introduction of new or materially improved production technologies, including new or essentially improved methods for provision of services or supply of goods, whereas organizational innovation is introduction of a new or substantially improved system of organizational management [3].

Observatory of European SMEs of the EU which was carried out in 2006 states that improvements to an existing product have been made or a new product has been created in one EU enterprise out of ten. However 37 % of the surveyed entrepreneurs (16 339 SMEs in 27 countries were surveyed) admitted that they have not carried out any innovative activities in 2006. In Latvia 64 % of the surveyed entrepreneurs could not name any innovative activity that would have been performed. This is the weakest indicator among the surveyed countries. Among reasons hindering innovative activities entrepreneurs have mentioned: problematic access to funding, lack of qualified manpower, lack of market demand and the problem of high remuneration of manpower [18, 21].

A research on the attitude of Latvian SMEs towards innovations carried out in 2002 already showed that many enterprises do not have sufficient management skills. Entrepreneurs lack basic understanding of growth mechanisms and business so that they would be able to use their knowledge for implementation of

innovations. Indicators of such understanding are: existence of business and marketing plans, understanding of factors which promote competitiveness and the number of employees with higher education. The research showed that many small enterprises do not have basic knowledge in management and appropriate funds for successful management of the enterprise. The actual situation in Latvia is rather sad – overall lack of creativity within enterprises [3].

#### 4. Factors influencing innovative activities of Latvian small and medium-sized enterprises

Small and medium-sized enterprises form 99 % of all enterprises in Latvia, whereas the majority thereof – 76 % are micro enterprises (1–9 employees), followed by small enterprises (10–49 employees) – 20 %, and only 4 % are medium-sized enterprises (50–250 employees). Technological innovation in Latvia mostly takes place in large companies – 54 % thereof, whereas what concerns small companies, active innovators are only 14 % of the companies of the group, whereas in the group of medium-sized companies, those were 27 % [19].

In order to successfully implement innovations it is important to have full command of the factors promoting activities in the innovation sector. The most significant factors promoting innovation processes are:

- well-functioning market of goods and services,
- high level of education at all levels,
- progressive scientific research – basic as well as applied research.

Changing customers' needs as well as economic fluctuations on national or sector level are reasons for the necessity to implement changes in the production process or structure of the enterprise. Thus, external factors create conditions which require from the enterprise expression of creativity, otherwise its long-term functional stability and development would be jeopardized. However, the company might be short of possibilities and potential for implementation of the necessary activities. Innovations serve as means for adaptation to changes of external environment, and as ability to ensure continuous improvement of processes, thereby increasing the efficiency of company's activities.

The possibilities of enterprises to be innovative to a large extent depend on the experience and knowledge of its employees. On the one hand, the qualification of the employees is a precondition for innovative development of the enterprise and determines its innovative capacity by consequently also determining future development perspectives of the enterprise. On the other hand, qualification is the result of innovations, because due to technological, organizational and social innovations, the qualification of the employees is substantially changed [22].

The basic risks for development and competitiveness of SMEs are: non-existence of elaborated

agenda (mission) and non-existence of long-term development goals, lack of professional knowledge and competence of managers of enterprises at different levels, lack of professional analyses of the internal and external environment in which the enterprise operates and, hence, lack of substantiation for the taken decisions [23]. The factors mentioned above also significantly influence creation and implementation of innovations in an enterprise.

The factors affecting the activities and development of an enterprise change depending on the stage of life cycle of the enterprise. The data published by the Central Statistics Bureau of the Republic of Latvia on the survey "Factors of success in business activities" conducted between June 2005 and January 2006 in 13 EU Member States point out the most significant hindering factors. These factors are divided into groups according to the stage of life cycle and the functional stage of the enterprise:

- setting up business (attraction of funding, recruitment of personnel, looking for clients and establishment of contacts, legal and administrative formalities);
- sale of goods or services (competition, demand, marketing skills, pricing of goods);
- development of business activity (access to qualified manpower, costs of manpower, attraction of financial resources, culture of paying capacity of clients, administrative procedures, organizational experience, adaptation to new technical standards).

If there are no innovative processes, the enterprise is not developing – it remains on one of the reached stages of life cycle. In order to ensure development and changes, human and financial resources are necessary.

Important finding is that enterprises that have been established by a person with higher education are more active in the innovation sector (see Table 1). 50.1 % of the questioned entrepreneurs have higher education, 47.6 % have general secondary or vocational secondary education and 2.3 % have completed only primary education [24]. Low competitiveness in the labor market for persons with primary education has probably served as the motivating factor for establishing their own enterprises.

However 36.3 % of the questioned entrepreneurs recognized that they have not introduced a single innovation in their enterprises [24]. Rearranging of the production process would also be considered an innovation, because the time spent decreases and the efficiency of resources increases. Innovative are also the processes which ensure better working conditions because they result in growth of return of manpower as a resource.

The following factors hinder development of innovations in enterprises:

- lack of entrepreneurs' understanding on the role of innovations in the development of the company and for ensuring competitiveness;

**Table 1.** The Activity of Enterprises in the Innovation Sector Depending on the Level of Education of Entrepreneurs (percentage of the total number of enterprises) [24]

Type of innovations	Education		
	Primary	General secondary/ vocational secondary	Higher
A new product/service introduced	0.8	17.8	23.1
A new type of selling products introduced	0.4	11.0	12.8
A new production process/method introduced	0.2	8.8	10.2
A new management/organizational method introduced	0.6	6.2	8.1

- insufficient access to financial resources, especially to the risk capital at the Seed Fund and Early Stage;
- poorly developed cooperation between enterprises both at local and international level;
- unsatisfactory cooperation between educational, research and industrial sectors [25].

Enterprises consider high competition and high taxes to be the factors hindering implementation of innovative activities – those are the external factors. The following are evaluated as less hindering: cooperation with wholesalers, i.e. distribution problems, lack of current assets, high credit rates, inability to receive credits and non-supporting attitude from financial institutions towards innovations. To be unimportant factors of no significant influence for innovations in SMEs, the respondents have mentioned: corruption, limited production capacity, too low demand for the produced goods, high production costs, out-dated production equipment and complicated import/export procedures.

Many SMEs managers do not pay sufficient attention to the professional training and further education of employees thereby neglecting human resources development possibilities. December 2005 an international study was carried out on the use of foreign language skills in small and medium-sized enterprises and on how these skills influence the work of enterprises. Basic conclusions drawn thereof were that European enterprises lose many business possibilities because their employees do not have enough language skills. On the basis of the indicators of the surveyed enterprises it was estimated that 11 % (945 000 enterprises) out of export small and medium-sized enterprises in Europe lose business possibilities due to communication problems [26]. The authors consider that foreign language proficiency limitations adversely affect the innovative attitude of enterprises, leading to a decreasing innovative capacity.

The most important factor hindering introduction of innovations in Latvia which is also emphasized by entrepreneurs themselves is lack of financial resources. The understanding of entrepreneurs on importance and necessity of innovation processes is not unambiguous because of insufficient understanding of eventual types and directions for implementation of innovations. Lack of financial resources is not the sole obstacle for active implementation of innovations, because it basically requires ideas, skills, and proficiency for introduction of the anticipated innovations. The entrepreneurial capacity to introduce innovations

lies within its internal processes and available resources, however the management of the company is the one which determines whether the necessary expression of creativity required for innovation processes will be promoted. One must know how to combine knowledge of separate individuals in a productive manner in order the resource management processes would result not only in growth of the economic, but also social capital.

**5. Conditions for creating innovation processes and innovative attitude**

The initiator of an innovation or the generator of ideas, the enforcer of the innovative process and, finally, the beneficiary is always an individual. The goal of activities in the innovation sector may be creation of innovations:

- for the interests of users (marketing aspect);
- to improve competitiveness (economic aspect);
- to prevent environmental damage (environmental aspect).

A precondition for creation of innovations is creative attitude, generation of ideas or creativity. Creativity helps conceive things in a new light; it is the skill to find something new. Creativity manifests itself as identification of a problem or an issue which merits a solution, generation of ideas on the eventual alternative solutions, as well as evaluation and implementation of ideas. However, in order to express creativity, the individual must have knowledge and competence in the certain area. Fig 1 shows the link between creativity and possibilities of innovative solutions [27].

Innovative solutions concern knowledge management, overall quality management, implementation of best practice, innovations of business processes and company’s structure innovations. However, these solutions are more appropriate for large enterprises because, for example, the structure of small enterprises is simple and communication – direct. Introduction of general quality standards is a labor-consuming and expensive process. As the best example for comparison within the sector it has to be noted that application of the method is limited by accessibility and reliability of information. Publicly accessible information (annual reports of enterprises) does not provide for a complete idea of the aspects which have to be examined in the process of application of the above method (organizational structure, management style, nuances of planning and control procedures, production structure etc.).

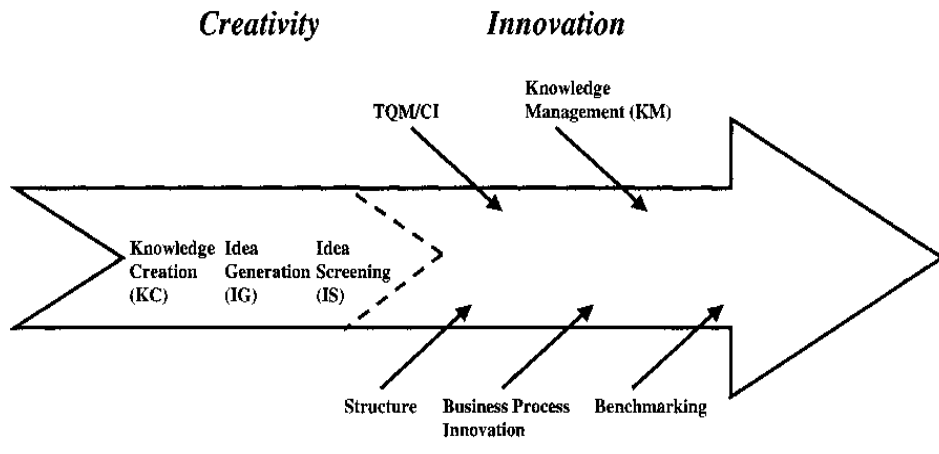


Fig 1. Process Approach to Creativity and Innovation [27]

Knowledge management requires involvement of organizational and technological resources of the enterprise. Knowledge management is not the same as management of human resources. Knowledge develops in a certain environment, it is discovered, it changes and it takes much effort and resources to maintain it. Knowledge management addresses the abovementioned issues, is responsible for the processes of transfer and adaptation of knowledge. Moreover, certain circumstances, methods and instruments are necessary which help implement certain activities. Thus, proper, added-value knowledge requires also accordingly competent management style which is characterized by attitude, delegation of competences and communication.

According to authors' practical experience, discrepancies which can be observed in day-to-day functional processes of an enterprise may remain ignored or, on the contrary, may be subject to analyses and creative solutions, when noticed by creative employees. The substance lies in the ability to notice, identify and understand the essence of the problem, by also perceiving the relation between the cause and the consequence. The task of the management is to provide „soil for creativity” which should serve as the foundation for employees' expression of creativity – individually or in working groups. The basis thereof is the culture of the enterprise. Individual knowledge combined with the possibility to use it in a result-oriented manner (processes, functions, relations) is an important precondition for innovative activities within a company. Innovation process is complicated because it is necessary to combine three components which determine the innovative potential of an enterprise: subject, creativity and practical implementation.

The innovative potential of an enterprise is manifested as „new ideas” which, in truth, are unpopular, unused ideas for the particular enterprise, but are not unknown to other participants of the economic environment. Novelties may develop on the bases of customers' demand – as a result of creative approach of the employees or from other sources. Factors influencing business environment may cause strong neces-

sity for innovations, thus an essential condition for implementation of innovative processes is the willingness of the management of the enterprise not to introduce innovations as such, but to do it according to the added-value chain specifics of the company. Therefore innovative attitude develops as a combination of company's knowledge on technological and functional processes and tendencies of the external economic environment (technologies, clients, economic processes on sector and country basis). Especially emphasized should be the qualitative and quantitative compliance of the manpower of the company for implementation of innovative processes.

Radical innovations are linked to development of some completely new product. Incremental innovations or local process innovations change the productivity of a particular technology and consequently the value of the process grows and increases. Such type innovations include even minor changes which are not revolutionary at all but which are predictable because the possibility that they might incur is determined by the existing knowledge, technologies and products. Incremental innovations are based on historical events and conditions. Innovative business management solutions are connected with incremental innovations. By comparing incremental and radical innovations, the first ones have the following advantages: easier to manage and control; lower risk level; faster response in case of market changes; the return from innovations is gained faster and the involved employees preserve the former activity comfort level.

In large enterprises the knowledge and skills of employees are more accessible and more qualitative. Small enterprises must concentrate upon knowledge that can be received from external environment and towards usage of already registered trademarks and patents. In comparison to large enterprises, managers of small enterprises are able to better use their knowledge concerning daily work of the company, priorities and problems. They can make better use of direct communication with employees and a small enterprise and its employees are much closer to the market and expectations of clients. Human resources are the best

source of productivity, its work can be improved either without or with minimal investments [28]. Qualification, on the one hand, is a precondition for innovative development of an enterprise and determines enterprise's innovative capacity and consequently also its further development perspectives. On the other hand, qualification is a result of innovation, since due to technological, organizational and social innovations significant changes in the qualification of employees are made [22].

Generation of ideas depends upon the environment in which the creative activity has to form itself – a democratic, relaxing and friendly environment stirs imagination and unusual solutions. Voluntary innovative activity which arises as social necessity creates greater economic benefit. The attitude of a society to innovative process can both to stimulate and suppress desire of the individual to join innovations. It influences on size of collective innovative potential and going of innovative process.

Usage of external skills is crucial for achievements however, in Latvia SMEs make use of these possibilities rather seldom. Enterprises do not see the internal obstacles which hinder the growth. Those are consequences of low management proficiency, since lack of understanding on internal obstacles hinder the growth of an enterprise.

Successful operation of a company is ensured by a strategy which is reality is a conception on how to achieve the set goals. Such strategy is defined by the management. In large companies attention mostly is paid to evaluation, development and preservation of competitiveness. Result management models and suggestions developed on the basis of research carried out by large companies are not directly applicable to the small ones, not only because of limited resources but also because of other factors, e.g. differing management organization. Unsatisfactory results are the outcome of incompetence and this, most often is also confirmed by financial indicators.

The factors which are important for the development of an enterprise develop in the social environment (quality of manpower, culture). Maslow's pyramid represents the needs of an individual. Maslow considers that it is possible to fulfill the needs of the lowest levels completely, but it is practically never possible to achieve self-realization. Self-realization is closely connected to the creative potential of a person to be implemented. The pyramid may become higher and reach the top if its foundation is stable, likewise, also a company experiences certain cyclic development, structure and information flow. If, for example, the structure, the organization is chaotic, energy which could serve further development of the company is lost. External motivation provides for a short-term effect. It is possible to create a favorable business environment and consider it a motivator for creativity and innovations, nevertheless capabilities and knowledge have to be created by individuals, business activity subjects.

During development enterprises go through at least four life cycles. In each stage of development the enterprise finds itself in different situations which may be characterized by the size of the enterprise in terms of turnover, number of employees, structure and technologies used. Alongside with continuous changes of market factors, the enterprise undergoes a process of permanent changes. Attitude towards innovations is linked to the opinion and value system, which, in small enterprises, is normally presented by the owners who often also perform the functions of the manager. The leader places his personal values in the company's management system: work, modesty, honesty, respect. In small enterprises the manager with leader's qualifications is even more necessary than in large enterprises, because the competition is more distinctive and the capacity of financial and also other resources is limited. By taking into consideration the simple structure and direct communication it is much easier to implement the process of changes in small enterprises. Innovative processes are always connected with changes – larger or smaller.

Manifestation of authority and principles of power delegation also affect the process of creativity. Innovations are always connected with changes. Changes may be characterized as a purposeful direction of different opinion and relations towards the result. Enterprises mainly stress cost, quality and time management. Innovative solutions are possible in each of these directions, however one must take into consideration that introduction of innovations requires courage, inquisitiveness and persistence. Also disagreements (opinion clashes), in terms of result management must be directed with a purpose of releasing energy which stimulates search for innovative solutions.

Today business competitiveness in Latvia requires completely different instruments than some years ago. Market saturation and the surplus in supply of consumer goods have favored the fact that added value and innovation have become top priority. There is a need for new ideas and methodologies which could promote growth and expansion of brands and market. Therefore education, maintenance and elevation of the level of knowledge nowadays is not only individual choice, instead, it is becoming an essential economic aspect for entrepreneurial activities.

Companies mostly pay attention to analyses of financial, production, marketing and customer service processes. However, the possibilities of improving company's performance as well as the true reasons for failures quite often are found in the behavior of people, since it is based on complex and hidden processes. In order to create and implement changes, enterprises use different philosophies – among two most popular are: Total Quality Management and Business Process Reengineering. Unfortunately, these programs are famous for the fact that normally they fail. The largest company in Europe „Nokia” considers itself to be a Learning Organization and tries to attain

that by three interrelated systems of human resources management: Knowledge Management, Performance Management and Competency Management [29].

The innovative attitude of an enterprise manifests itself as a desire to master not only the newest production technologies, but also management theories and ideas, and also in small enterprises the „process of creation” is connected with the peculiarities of human resource management. The quality of management of an enterprise determines its overall performance results, by taking into consideration the innovative potential of the enterprise which includes:

- management systems (decision taking speed, delegation of power, management style);
- finances (possibilities of attracting loans, own capital);
- employees (qualification, motivation);
- technologies (complexity, flexibility of processes, process expansion possibilities);
- production (market share, sales segments, quality/price ratio).

## 6. Conclusions

Realization of innovative process is carrying out at two levels - state and enterprise level. Scenarios of long-term economic development are designed, and business environment favorable to innovations is planned at the state level. In turn innovative activity of the enterprise is connected with individual's perception, skills and knowledge of certain circumstances, organizational and technological decisions, which are transformed into innovative capacity of the enterprise.

Latvian small and medium-sized enterprises mainly provide process of integration of innovations, applying technologies created abroad.

The factors constraining innovations, in the opinion of entrepreneurs are in external business environment – the limited access to sources of financing, shortage of the qualified labour, administrative procedures and others. The factors which are stimulating innovations and being inside of the enterprise are connected with social sphere - culture, labour, everything, that promotes growth of creative potential. Unskilled management of this field of enterprise's activity reduces its innovative ability, which in turn influences sustainable development. Innovative activity of the enterprise directly is connected with an educational level of managers. In order to provide sustainable development of the enterprise this condition is obligatory, but insufficient.

Development of competence and openness to innovations require also appropriate investments in education and qualification raising at enterprise level, as well as development of entrepreneurial culture that would promote innovations. It is not enough for an individual to be creative and capable to learn. Capability to learn is necessary for the enterprise itself,

respectively, new knowledge has to be acquired and turned into new products and services.

The results obtained by small enterprises and their sustainable development are influenced by willingness (innovative attitude), possibilities (financial stability) and skills (knowledge management) to use contemporary instruments of business management.

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