

# Chapter 16

## Impact of Economic Culture on the Development of Enterprises

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### ABSTRACT

*Values of individuals, culture of groups, ethics of communities, and the resulting influential norms (i.e. VCEN) are interdependent. VCEN tend to crucially influence development and application of knowledge, skills, talents, and other resources. In the current very competitive and increasingly global economy, organizations and countries become more successful if their economic culture is innovation friendly. Economic culture reflects itself in the economic part of VCEN of nations as well, because organizations, such as enterprises, play a crucial role in a nation's life. National resources are no longer enough, neither is investment, if it is not innovation enhancing. Thus, a new concept of economic VCEN is going to become necessary for people to find a new positive direction beyond the worrisome blind alley of the current economic crisis. The innovation of VCEN is, again, becoming more important than the technological innovation for development of countries and, indeed, for humankind. The contribution discusses two theses: (1) VCEN in organizations is importantly interdependent with the economic culture, and (2) the change of the economic culture in an organization is connected with the changes of the organizing methods and their management.*

### INTRODUCTION

Although they are called by many different names business systems have become very influential institutions of the modern age (Schumpeter, 1934; Kuratko, 2008; Baumol, 2010). Since the great majority of business systems are Small and

Medium Enterprises (SMEs), it is almost impossible to reach any goal in the society without also engaging the SMEs (Hebert & Link, 1989; Fink & Kraus, 2009; Greene, 2009; Lerner, 2009). In recent decades the attempts by SMEs to become more efficient, have ranged from synergetically adding quality, range, uniqueness, and sustainability (Collins, 2001; Potocan & Mulej, 2007, 2010; Buchanan & Huczynski, 2010; Mullins,

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2010). This requires on-going innovations, both of the technological and even more of the non-technological aspects, especially the economic culture.

Innovation is defined as every novelty found beneficial in the experience of its users (Afuah, 1998; Rogers, 2003; EU, 2006; Martin, 2009). Or, in other words: Innovation = invention + (its) commercialization (Afuah, 1998).

Modern SMEs face at least two important challenges:

1. How to satisfy demanding customers' requirements, and
2. How to make their own business innovative to make customers happier with it.

For that reason, SMEs must structure and implement a process of thinking of/about everything crucial on the same level or even on a level higher than that performed by the bigger enterprises. Meeting these requirements depends on influential humans, and does not only depend on the institutional order alone. Thus, most SMEs can innovate their style of working and behavior, including the application of ethics of interdependence within the organization, in the market, and in society at large. Therefore, it makes sense to consider the preconditions for humans to be innovative about SMEs as business systems.

We discuss here the issue of improving the level of innovativeness on the basis of knowing: the innovative working of SMEs, possibilities to assure the human bases for innovativeness, and the link between change in economic culture and the innovativeness of SMEs.

## **BACKGROUND**

Literature on innovation abounds. Today there are many more authors and contributions about different aspects of the innovativeness of SMEs than

ever before (Lester & Piore, 2004; Leydesdorff, 2006; Sheshinski et al., 2007; Fink & Kraus, 2009; Chesbrough, 2009; etc.). Pyka and Scharnhorst (2009) offer an interesting new approach to change and learning. Leydesdorff (2006) offers an interesting new concept of modeling, measuring and simulating the knowledge-based economy. Schwartz (2006) is trying to help people be more entrepreneurial. Lester and Piore (2004) warn – when discussing the need for building interpretation capacity – that the contemporary American education lacks schooling that fosters the capacity for creative interdisciplinary co-operation, which is a precondition for success in active innovation.

Nussbaum et al. (2005) raises awareness that despite spending huge sums on R&D, most corporations have dismally low levels of effective and productive innovation—up to 96 percent of all new projects fail—and offers suggestions how to get better at this. McGregor (2006) points to attributes of the most innovative companies of today. Huston and Sakkab (2006) are given space in Harvard Business Review to describe their new model for innovation. Business Week decided to focus on innovation for its 75<sup>th</sup> anniversary issue under the label “The Innovation Economy” in its special report. In June 2006, Business Week published its inaugural issue of IN: Inside Innovation with these words from its editor: “We dedicate ourselves to the proposition that making innovation work is the single most important business challenge of our era. Our goal is to make a meaningful difference in the difficult journey toward building innovative business cultures” (Nussbaum et al., 2005; Potocan & Mulej, 2007; Kelley, 2009).

There is no way that we can include all references to innovation in economic, sociological, psychological, and similar literature; it is no longer a technological topic only. IBM (2006) reports on a worldwide survey finding that innovation of business is even more crucial than the technological innovation (Potocan, 2008; Shane, 2008; Conway & Steward, 2009; Korten, 2009; etc.).

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