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Mapping the Context for Transfer of Finnish Workplace Development Practice –  
Finland, Hungary and Romania

A finn munkahely fejlesztési gyakorlat alkalmazási környezetének feltérképezése  
Finnországban, Magyarországon és Romániában

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*Absztrakt:* Finnország mind versenyképességét, mind gazdasági teljesítményét tekintve a világ élvonalába tartozik. A finn “gazdasági csoda” egyik kulcsa az ország kiemelkedő innovációs teljesítménye, amely a technológiai és szervezeti innovációk együttes alkalmazásán keresztül

érvényesül. Az EU által finanszírozott Adaptykes projekt arra irányult, hogy a finn munkahelyfejlesztési program (TYKES) eredményeit vállalkozásoknak készített tananyag formájában adaptálja Magyarországon és Romániában. Ez a tanulmány azzal a szándékkal született, hogy megkönnyítse a finn jó gyakorlatok eltérő gazdasági-intézményi környezetben történő adaptációját. Az összehasonlító elemzés többek között olyan területekre terjed ki, mint a kis-és középvállalatok gazdasági, foglalkoztatási és innovációs teljesítménye, illetve a humán és a szervezeti tőke fejlesztésébe történő beruházások.

*Kulcsszavak:* Innováció, munkahelyfejlesztési program, intézményi környezet, humán és szervezeti tőke

*Abstract:* Finland belongs to the most developed countries concerning almost all aspects of its economic performance. One of the key elements of the Finnish “economic miracle” is the country’s outstanding performance in both technological and organisational innovations. The Adaptykes project, which is financed by the EU, aims at adapting some results of the Finnish Workplace Development Programme (TYKES) into Hungary and Romania as a teaching material for enterprises. The aim of this study is to help the transferring of the Finnish best practices into the different economic and institutional environment of the recipient countries. The comparative analysis focuses on such key areas like the economic and innovative performance of the small and medium-sized companies and their investment in the development of both human and organisational capital.

*Key words:* innovation, workplace development programme, institutional environment, human and organisational capital

## Introduction

One of the main economic engines both in Europe and in the Central and Eastern European countries is the small and medium-size businesses (SME) and this sector especially needs particular attention “if the Continent’s nascent recovery is to gain momentum”. (Anderson–Ott, 2013:3) In this context, there is a growing interest to look at best practices in the group of countries which are outperforming the others in the field of diffusing innovation as a source of sustainable competitiveness of firms operating in the SME sector.

It is a widely shared view that the human capital is the key source of the innovation, but this works *only* “... if there is an appropriate environment, in particular companies and organizations that take advantage of the talent and innovative capacity of the people they employ. Designing organizations and management practices that are conducive to innovation is part of the challenge.” (Green – Lorenz, 2010:3). In relation to this it is worth mentioning the OECD Innovation strategy, which indicates the key role of diffusing practice in workplace innovation. (OECD, 2010)

This size category of firms are playing a key role in all the three countries involved in this project (i.e. Finland, Hungary and Romania). For example, a great majority (more than 90 %) of firms categorized as SMEs represents the highest share of jobs in these countries. Due to this core importance of the SMEs in the countries surveyed, it is a key policy challenge to develop an ‘innovation-enabling environment’ in this sector. In creating the innovation capacity of the firm, forms of work organization and their learning capabilities have core importance. For example, according one of the best documented report on the learning and innovation in the enterprises “... relationships exist between work organization, learning and innovation. There seem to be significant positive correlations between learning-intensive forms of work organization and innovation performance, at least at country level. Countries showing higher levels of learning-intensive forms of work organization tend to rank higher in innovation performance.” (Cedefop, 2012:7)

Comparing the innovation performance of the European countries, the best performers are the Nordic and Continental countries (e.g. Denmark, Germany, Sweden, *Finland*, Belgium, Luxemburg, Netherlands. Post-socialist countries belong in the “low” performer country cluster (e.g. Bulgaria, Latvia, Lithuania, *Hungary*, Poland, *Romania* and Slovakia). (Cedefop, 2012: 45).

In addition, it is necessary to note that the innovation capacity of the SMEs is rather weak in comparison with the large firms in all types of innovations (e.g. technological and non-technological) and particularly in the field of organizational innovations (i.e. implementing new marketing methods, new business models, workplace innovations etc.). Knowing the generally observed close relation between the size-category of firm and innovation activity, it is a strategic challenge for the policy makers to improve the countries competitiveness via upgrading the innovation capacity of firms in the SMEs sector.

Due to the rather rich research experiences on technological innovations (Makó-Illéssy-Csizmadia, 2012), this report is focusing on the role of non-technological innovation, and especially on the innovative practices in the workplace. The rationale behind this approach is the general underestimation of the role of workplace innovation within the national innovation system and policy. However, workplace innovations have significant impacts on the performance both the levels of the national economy and firm. In relation to this, it is worth noting that the implementation of various forms of workplace innovation (e.g. High Performance Working Systems, HPWS) may result in 15-30 per cent performance premium in the firm. In this respect a visible divide is characterizing the countries in the European Union, when contrasted with “... *the greatest lack of investment in Workplace Innovation is in South and Eastern Europe*”. (Dortmund/Brussels Position Paper, 2012,)

Learning and transferring the experiences from the Nordic Countries, i.e. from Finland would be conducive to increasing the awareness of this problem and improving the innovation capabilities of SMEs in the post-socialist countries (i.e. Hungary and Romania). The various waves of the *Workplace Development Program in Finland* (TYKE 1996, TYKES 2004-2010, TEKES 2012-2018) have an ambition to “... *renew the business operation of the companies through developing management and forms of working and actively utilising the skills and competencies of their personnel. The vision is that in 2020 Finland will have Europe’s best workplaces.*” (Kotonen et. al. 2013: 2-3).

Various forms of learning – including formal and informal ones – might be an important predictor of the firm’s innovation performance, because “*Innovation sometimes leads to rapid obsolescence of skills and thus calls for regular workforce retraining. This is one traditional reason to support lifelong learning ... countries which are leaders in innovation are also those where companies offer more opportunities of learning and training to their employees*”. (Green – Lorenz, 2010:3)

In designing the transfer of the experiences on the Finnish Workplace Development Program, instead of the mechanistic benchmarking that is widely advised and used by the policy makers, Adaptykes consortium members are using the concept of the intelligent or reflexive benchmarking, which “... enables firms to learn from others, not by copying ‘show cases’, but by gaining a better understanding of one’s own solutions, their strengths and weakness, when seen in light of what others do and what options they see. The idea of such a policy is not to achieve homogeneity but enable learning for diversity.” (Schienstock, 2012:18) In addition, it is worth remembering the advice of Frederic Winslow Taylor who was one of the most important contributors of the „scientific management” movement or management science. According to him, implementation of a new organization or management system at the shop-floor level requires at least seven years learning process from the actors affected by the changes. Without *developing the necessary competence and allocating time for learning* both individually and collectively, the anticipated organizational renewal via transfer of the Finnish experiences would fail.

In relation to the methodology used in this study, both quantitative and qualitative research methods were combined, that is to say that statistical analyses of the national economies (SMEs) were enriched by the deeper insight gained from the company case studies carried out in manufacturing and knowledge intensive business services (KIBS) in Finland, Hungary and Romania.

This comparative study is divided into five parts. The first part is the introduction of the importance and key dimension of workplace innovation. The second part describes the main features of the Finnish Workplace Development Programme. The third part presents a brief overview of the national economies surveyed. In addition, the regulatory and institutional environments for the SMEs sector are described. The fourth part is focusing on the core topic: a comparison of the innovation and knowledge production practices in the three countries of the research consortium. The conclusion summarizes the main lessons of the analysis and the last part of the research report contains the key messages learnt from the comparison of the countries surveyed.

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<sup>1</sup> For their support and personal help, the authors would like to thank to the national reports writers, Anu Suomaki – Ulla Kotone – Miika Kuusisto – Marja-Leena Savonen (Lahti University of Applied Sciences, Finland) Richárd Kása

(Budapest Business School, Hungary) and Kinga Kerekes – Andrea Coste (Babes-Bolyai University, Cluj,Romania). Finally, we express our sincere gratitudes to Nick Chandler (Hungary) for the linguistic revision of the English version of this paper.

## 1. A Broad-based Innovation Policy: The Finnish Workplace Development Programme

As Alasoini (2011:23-24) noted, the Finnish innovation policy approach was characterised until the early 2000s as “... *though ‘systematic’, as ‘narrow’ in the sense that its focus was firmly on technological innovations, it concentrated on advances in certain branches and technologies, and it promoted innovation activity mainly by funding leading-edge firms and top universities and research institutes.*” The new innovation strategy – launched by Prime Minister Vanhanen’s Government – “... *is based on the idea that the focus of innovation policy should be shifted increasingly to demand and user-driven innovations and the promotion of non-technological innovation.*” In relation to this development it is worth presenting the main features of the *Finnish Workplace Development program (TYKES)*. The program (2004-2010) aimed to improve both productivity at the Finnish workplaces and the quality of working life (QWL) through supporting the diffusion of new organizational practices, focusing on the SMEs sector. Within the program 1,168 projects were funded totalling over 71 million euros. The Program aimed to support the development of organisations in the following fields:

- 1). the *workplace development* projects covered such dimensions of organizational practices as how to implement new working methods and processes in the working practice, developing management methods and, in general, diffusing new tools of HRM, improving cooperation and networking within and between firms, etc.
- 2) projects focusing on the *method development* intended to explore and exploit new technological potential, new models of work organization (e.g. High Performance Working Systems (HPWS), project-based organization etc.), the implementation of new business models (e.g. e-business model), support for closer cooperation and interaction between suppliers and clients in the process of product and process innovation, fostering partnership and cross-sector cooperation to enlarge the knowledge pool for the SMEs and finally, to improve their position in the Global Value Chain (GVC).
- 3) developing *learning network* represents one of the most original parts of the TYKES program which aimed to improve the collective learning/development capacity of the social partners (i.e. universities and their R&D units, private consulting agencies as bridging institutions between the academic and business community, and firms). Network development indicates that the Program

developers were aware of the crucial importance of the “collective learning process” of the social actors in designing the program with a medium-term perspective (2004-2010).

Finnish partner (LUAS) in the Adaptykes project – exploiting the results of the Project - “... *has developed training materials and training courses in adult education for the SME sector in order to introduce social innovation into the managerial-organizational profile of the enterprises. Short-term training courses have focused on specific needs of SMEs, while long-term development training programmes such as Master’s degree programme of Small and medium size enterprises produce in-depth insight and development within enterprises.*” (Kotonen, et.al. 2013:3)

The following sections outline the main characteristics national economies and the SMEs contexts, with a special focus on knowledge development practice and innovation.

## **2. Brief Overview of the National Economies**

### **2.1. Main Features of the Economy and Employment**

Evaluating the various indicators of the economies of the countries in question, we easily identify visible differences. Finland has the best position in the majority of indicators (i.e. GDP, GDP per capita, employment rate and share of R&D in the GDP) in both periods: before and after the financial crisis and economic downturn (2008-2009). The position of the two post-socialist countries is different: Hungary has a relatively better position than Romania in the indicators of GDP/capita and the share of R&D in the GDP. Expenditure on R&D plays a key role in shaping the knowledge development/training and innovation practices in the firm. In this case, Finland's leading position is clear: its spending on R&D is three times higher than in Hungary and sevenfold higher than Romania. In relation to this, it is necessary to note the modest improvement of this spending in Hungary. Between 2007 and 2011, the share of R&D expenditure has increased by 25 %. The employment rate was much higher in Romania than in Hungary, while the unemployment rate in Romania was lower - before and after crisis period – than in both in Finland and Hungary.

**Table 1: Some Economic Indicators: Before and After the Crisis (Finland, Hungary and Romania)**

| Indicators                 | 2007                 |                   |         | 2009                 |                    |         | 2011                 |                    |         |
|----------------------------|----------------------|-------------------|---------|----------------------|--------------------|---------|----------------------|--------------------|---------|
|                            | Finland              | Hungary           | Romania | Finland              | Hungary            | Romania | Finland              | Hungary            | Romania |
| GDP (md Euro)              | <b><u>179.8</u></b>  | 99.4              | 124.7   | <b><u>172.8</u></b>  | 91.4               | 118.2   | <b><u>189.5</u></b>  | 99.8               | 131.3   |
| GDP/capita                 | <b><u>29 400</u></b> | 9 900             | 5 800   | <b><u>26 900</u></b> | 9 100              | 5 500   | <b><u>28 800</u></b> | 10 000             | n.d.    |
| Employment rate (%)        | <b><u>74.7</u></b>   | 57.3              | 58.8    | <b><u>73.5</u></b>   | 55.4               | 58.6    | <b><u>73.8</u></b>   | 55.8               | 58.5    |
| Unemployment rate (%)      | 6.9                  | <b><u>7.4</u></b> | 6.4     | 6.4                  | <b><u>10.0</u></b> | 6.9     | 8.2                  | <b><u>10.9</u></b> | 7.4     |
| R&D expenditure (% of GDP) | <b><u>3.47</u></b>   | 0.98              | 0.52    | <b><u>3.94</u></b>   | 1.17               | 0.52    | <b><u>3.78</u></b>   | 1.22               | 0.52    |

Comparing the share of employment by economic activities, we may say that the largest employer is the “service and commerce” sector, with the exception of Romania in 2006 –. In 2010, this sector became the largest employer of all the countries in question.. The employment share of the industrial sector shrank in the period observed (2006-2010). The share of employment in the industrial sector is the largest one in Romania, while in Finland and Hungary this figure is decreasing. Only a small minority of people is employed in agriculture.

**Table 2: Share of Employment by Economic Activities: Finland, Hungary and Romania (%)**

| Sector                    | 2007              |                     |                    | 2010    |                     |                    |
|---------------------------|-------------------|---------------------|--------------------|---------|---------------------|--------------------|
|                           | Finland           | Hungary             | Romania            | Finland | Hungary             | Romania            |
| I. Agriculture            | <b><u>4.5</u></b> | 3.35                | 2.97               | 4.5     | <b><u>4.54</u></b>  | 3.16               |
| II. Industry              | 37.4              | 32.30               | <b><u>50.2</u></b> | 34.2    | 30.7                | <b><u>44.4</u></b> |
| III. Service and commerce | 58.1              | <b><u>62.85</u></b> | 46.82              | 61.3    | <b><u>64.75</u></b> | 52.43              |
| Total                     | 100.0             | 100.0               | 100.0              | 100.0   | 100.0               | 100.0              |

## 2.2 Organizational Morphology in the Economy

The growing importance of the SMEs must be stressed – particularly – in the post-socialist countries (Hungary and Romania). In these countries, during the shift from the planned-economy to the market one in the 1990's, a radical downsizing of the economy took place. To better understand the historical importance of this restructuring process it is necessary to remember the size structure of the former state-socialist firms. The planned economy was dominated by the large state-owned firms. (See the Table no. 34)

**Table 3: Size Distribution of Manufacturing Firms: Planned versus Capitalist Economies (1970?????)**

|  | Planned economy (1) | Capitalist economy (2) |
|--|---------------------|------------------------|
| <b>All manufacturing firms</b>                           |                     |                        |
| 1. Average number of employees per firm                  | 197                 | 80                     |
| 2. Percentage of those employees by large firm firms (3) | 66 %                | 32 %                   |
| <b>Textile industry</b>                                  |                     |                        |
| 1. Average number of employees per firm                  | 355                 | 81                     |
| 2. Percentage of those employees by large firm firms     | 61 %                | 28 %                   |
| <b>The ferrous metal industry</b>                        |                     |                        |
| 1. Average number of employees per firm                  | 253                 | 82                     |
| 2. Percentage of those employees by large firm firms     | 61 %                | 28 %                   |
| <b>Chemical industry</b>                                 |                     |                        |
| 1. Average number of employees per firm                  | 325                 | 82                     |
| 2. Percentage of those employees by large firm firms     | 79 %                | 35 %                   |
| <b>The food processing industry</b>                      |                     |                        |
| 1. Average number of employees per firm                  | 103                 | 65                     |
| 2. Percentage of those employees by large firm firms     | 39 %                | 16 %                   |

*Legend:* 1. The sample includes Czechoslovakia, East-Germany, Hungary and Romania.

2. The sample includes Austria, Belgium, France, Italy, Japan and Sweden.

3. Large firms employ more than 500 people.

*Source:* Kornai, J. (1992) *The Socialist System: The Political Economy of Communism*, Princeton: Princeton University Press, p. 400.

Following almost half a century of dominance by the large firms in the state-socialist countries (i.e. Hungary and Romania), the size structure of the economy changed dramatically during the 1990's and became similar to other economies in the EU-15. For example, the great majority of firms in Hungary (97.3 %) belongs to the category of SMEs and represents the majority of jobs (55.8 %) too. The pattern of size distribution of firms is rather similar in Romania: the overwhelming majority of firms (91.6 %) is small and medium-sized, however a much lower share of employment (40 %) is generated by this sector. In the Finnish case too, SMEs represent the dominant size category (96 %) within the economy.

In relation to the R&D expenditure by size category of firms, the following international pattern was identified in all three countries: large firms are spending several times more resources on R&D than smaller ones.

### **3. SME Sector in Comparison**

#### **3.1. Dominant Size Category, Legal-Administrative Environment and Competitiveness**

Comparing the *size structure by economic sectors* in the countries participating in the Adaptykes project, we may say that a more balanced size structure is characterising both the Finnish and Romanian economies compared to the Hungarian one. For example in five sectors (i.e. manufacturing; water supply, sewerage, waste management and remediation activities; information and communication; administrative and support service activities; public administration and defence, compulsory social security), the share of large firms is higher than the share of the SMEs in the Finnish case and in three sectors in Romania (transportation and storage; information and communication; and administrative and support service activities). While in Hungary, the share of the large firms was higher (7.84 %) than the SMEs (1.83 %) only in the transportation and storage sector. In relation to the size category of the firm, there is an almost general consent on the importance of innovation and the learning potential of the “middle-

*sized*” firms. They are the source of sustainable competitiveness. For example, Germany’s mid-sized companies (“*Mittelstand*”) have a model role for other European countries using a strategy focusing on the market-niches. During the past few decades, these firms progressively became global players. “*They have provided China’s “factory to the world” with its machine tools. The Mittelstand dominates the global market in an astonishing range of areas: printing, presses (Koenig & Bauer), licence plates (Utsch), snuff (Pöschl), shaving brushes (Mühler), flycatchers (Karcher). ... 80 % of the world’s medium sized market leaders are based in Germany and Scandinavia, successful Mittelstand-style companies can be found everywhere from the United States (particularly the Midwest) to northern Italy, so the model does seem to be transferable.*” (Schumpeter- Mittel-management, 2010: 71). Comparing the three countries, the share of the *middle-sized firms in Finland is two times higher than in Hungary and Romania* (8 versus 4). *Legal and administrative environments* are important sources of institutional enablers or constraints for the SMEs. In Finland launching a new enterprise takes 2 weeks and costs around 400 euro and a minimum standard of the environmental responsibility is required. (Doing Business, 2012.) In the Hungarian case, the high administrative burden (i.e. growing bureaucracy, rapidly changing regulations etc.) is still higher than the EU average, however some progress has been recorded in recent years (e.g. 4 days is needed to start up a company, which is close to the EU Council target). The cost of establishing a business is still rather high (400 euro) - similar to Finland, where the indicator of GDP/inhabitants is three times higher than in Hungary.

Apparently, the administrative burden of company creation is the highest in Romania, “*...the number of market entry procedures in Romania is the highest in the EU. They identified 16 procedures that have to be done before starting a business and calculated the cost of the new entities to be 15.31% per capita of GNP (the average in the Western Union being 11.92%)*” (Kerekes-Coste, 2013:11) and 105 % per capita of GDP in Hungary.

*In relation to the competitiveness of the SME sector*, we have to stress again the leading role of Finland. For several years the Finnish economy was in the top ten countries measured by the Global Competitiveness Index (2012). “*The most important factors influencing Finland’s ranking are the transparency of public institutions, the high level of education providing a skilled workforce, and well run and ethical private institutions and innovativeness, in which Finland is the 2<sup>nd</sup> most advanced in Europe* (Suomaki, 2013:9).

*Hungary’s ranking in the Global Competitiveness Index is 48th (2011-12). The country’s position has started to improve since 2009, and grew slightly until 2011.*” *In this relation we have to note that*

*“according to World Bank Enterprise Surveys (2009) the top five constraints to firm investment in Hungary are tax rates, political instability, tax administration, practices of the informal sector and corruption.” (Kása, 2013:13-14)*

According to the Global Competitiveness Report, “...the rank of Romania has worsened from 2006 to 2012 for all of the following factors: overall index, basic requirements, efficiency enhancers, innovation and sophistication factors, higher education and training, labour market efficiency and innovation. (Kerekes-Coste, 2013:13)

### **3.2. Business Environment: Doing Business, Finance and Internationalisation of SMEs**

According to the “Ease of doing business”, Finland’s overall ranking is 11<sup>th</sup>, and “...it can be said, that Finland is, even with complex taxation, strict start-up processes and a challenging financing situation, amongst the easiest countries for doing business.” (Suomaki, 2013:10).

In the period of 2008-2012, Hungary has lost nine places (from 45<sup>th</sup> place to 54<sup>th</sup> place), however some improvements were registered (e.g. ease of starting business, from 67<sup>th</sup> place to 52<sup>nd</sup> place.) The position of Romania is even worse. According to the World Bank Group’s research - it occupies the 72<sup>nd</sup> position from 185 countries. However, some factors are improving (e.g. doing business, construction permits, registering properties, getting credit and paying taxes ) but other areas are deteriorating (e.g. starting business, protecting investors, trading across borders, enforcing contracts and closing business). The following table contains the selected factors influencing business practices in the Adapykes countries.

**Table 4: Ranking of Selected Factors Shaping Business Practice (World Bank Doing Business 2012)**

|                                   | Finland | Hungary | Romania |
|-----------------------------------|---------|---------|---------|
| Doing business ...                | 10      | 54      | 72      |
| Starting business                 | 39      | 52      | 68      |
| Dealing with construction permits | 35      | 55      | 129     |
| Employing workers                 | n.d.    | 81      | 168     |

|                                       |    |     |     |
|---------------------------------------|----|-----|-----|
| Registering property                  | 24 | 43  | 72  |
| Getting credit                        | 38 | 53  | 12  |
| Protecting investors                  | 66 | 128 | 49  |
| Paying taxes                          | 20 | 118 | 136 |
| Trading across borders                | 7  | 73  | 72  |
| Enforcing contracts                   | 9  | 16  | 60  |
| Closing business/Resolving insolvency | 5  | 70  | 101 |

*Source:* The World Bank Group, Doing Business Ranking, 2012.

Access to financing is the easiest in Finland, even in the current economic situation in which the conditions or procedures are stricter. As Suomaki noted “... *if the applicant has a well-grounded business plan (and reasonable requirements) ... access to finance can be considered easy. (...) Financing is a sufficient, yet in Finland still scarce, form of support for such companies. This is something the Finnish Funding Agency for Technology and Innovation, TEKES, is already providing, but the operations still require developing. (TEKES, 2012) In addition to TEKES, there are several expert organizations and institutions in Finland offering assistance to SME’s regarding internationalization.*” (TEKES, 2012) (Suomaki, 11-13).

The Finnish government is creating an enabling environment that facilitates start-ups to move to global markets. In relation to the access to financing in Hungary, it is necessary to note that the overall ranking of the country dropped from average to below the EU average. However, in the last fifteen years the conditions for getting access to bank loans have improved.

“The Hungarian experience – similar to other transformation (i.e. former state-socialist) countries – is that lack of finances is not an important obstacle to the creation of small firms, which rely on informal sources or, for some firms’ parent companies. However, the inability or unwillingness to access external finance is critical for the development of these SMEs. Since 1999 financing issues have become increasingly less problematic, reflecting the fact that commercial banks and savings cooperatives increasingly served SMEs with new loan products and services. In the WB-DB ranking Hungary gets a fair 28 in the overall ranking and 10 in that referring to EECA for getting credit.” (Dallago, 2012:11)

In the Romanian case, the financial context is quite reasonable. “*The financial crisis has created a difficult environment for Romanian companies. However, the conditions for the access to various accesses to finance for SMEs are quite reasonable. The proportion of rejected loans recorded a decrease from 48% in 2009 to 18% in*

2011. *The share of Romanian business owners who report that they have noticed decrease in the willingness of the banks to provide loans has remained stable at 41%, which is a high level and well above the EU-average of 30%.*” (EC, 2012) (Kerekes-Coste, 2013:13)

Beside the regular complaints of the entrepreneurs on the financial conditions of their business in both Hungary and Romania, we share again the following diagnosis of the above quoted Italian author: *“The limited financial penetration is due to different factors: ignorance or worry of many entrepreneurs of the existing possibilities and their features and fear or inability of growing; insufficiently developed guarantee and insurance system; weak reputation and trust preventing the matching of demand and supply; fear to weaken or jeopardise the owners’ control over the enterprise. These problems require a broad spectrum of financing solutions and education of entrepreneurs.”* (Dallago, 2012:11)

Concerning access to the international market, the internationalisation of Finnish SMEs takes time which is necessary for the learning process. For example, internationally successful firms were initially successful in the local and national markets. In addition, we have to note that Finland has top position both in knowhow and product development, but is less advanced in the fields of commercialisation and competences related with the business operation. For both the SMEs and the large firms the most important export target region is the European Union.

In contrast, in the Hungarian case, the involvement of the SMEs in international trade is rather high in an international comparison (35.3 % of domestic exports). *“Top barriers include inadequate quantities of, and untrained personnel for internationalisation and limited or problematic access to foreign markets. The latter includes limited information to locate and analyse markets, and identifying foreign business opportunities and barriers belonging in the business environment, like unfamiliar exporting procedures and paperwork. Working capital to finance exports is apparently sufficient for high-growth SMEs, but is an important barrier for more traditional enterprises ... advantages deriving from EU integration, Hungary has an informal knowledge and relational advantage in neighbouring countries in the regions inhabited by Hungarians.”* (Dallago, 2012:11)

In Romania, the rate of internationalisation of companies is particularly size-dependent: companies with larger size are more active in the international markets, too. *“...for the average European SMEs, Europe remains the main and key trade partner across all sectors and company sizes and even more so in the case of services. SMEs themselves are showing that internationalisation is growing well beyond just exports and moving into more developed levels of cooperation.”* (Kerekes-Coste, 2013:15). However, the share in exports of the Romanian SME is almost the same as in the Hungarian case.

## 4. Human and Structural Capital Formation and Innovation

There is a general consent among the experts dealing with the firm's innovation that investing in intellectual capital<sup>\*\*</sup> may boost sustainable competitiveness (Villalba, 2006). Intellectual capital is composed of the following components:

- 1). *Human capital* represents investment in formal and informal learning (e.g. Continuous Vocational Training, CVTS),
- 2). *Structural capital* relates to investments aimed to develop learning-intensive or innovative organisation or technologies in the workplace "... leading to informal and non-formal forms of learning at the workplace. Organisational capital is considered to be the part of structural capital." (Cedefop, 2012:22),
- 3). *Relational capital*, or customer capital, refers to the company's relevant external relations to customers, strategic partners and stakeholders. It "...enables the organisation to absorb external capital... It leads predominantly to informal and non-formal forms of learning, but might also result in more formal modes of learning where relations between industrial organisations and educational institutions are concerned."(Op.cit. 2012:22) In this relation to this we agree with the following statement that "Firms are not islands but are linked together in patterns of co-operation and affiliation. Planned co-ordination does not stop at the boundaries of the individual firm but can be effected through co-operation between firms." (Brusoni – Prencipe – Pavitt, 2001:598)

Our analysis is primarily focusing on the roles of the human and structural capital in the development of innovation or dynamic capabilities of the firm.<sup>\*\*\*</sup>

### 4.1. Investment in Human Capital: Visible Divide between Finland and Post-Socialist Countries

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<sup>2</sup> „Intellectual capital is considered to be an intangible asset that includes, *inter alia*, investment in research and development (R&D) activities, software, marketing and organisation as well as business practices.” (Cedefop, 2012:2)

<sup>3</sup>“Dynamic capabilities ... are defined, as the ability to change routines and procedures in order to reconfigure and mobilize the more intangible and tacit resources in the firm.” (Nielsen, P. 2012:3.)

The analysis of human capital formation focuses on the roles of the life-long learning and adult participation in education and training. In the countries surveyed, Finland has a leading-edge position, followed by Hungary and then Romania. The differences between Finland and the two post-socialist countries, Hungary and especially Romania are significant. In the case of the life-long learning the Finnish participation rate is more than two times higher than in Hungary and almost twenty times higher than in Romania. The gap in adult participation in education and training in the Adaptykes countries is even wider: in Finland more than one fifth of the adults participate in education and training but in Hungary and in Romania less than three per cent of them. It means that in Finland the share of adults participants in education and training is seven times higher than the other two countries.

**Table 5: Participation in life-long learning and adult participation in education and training: Finland, Hungary and Romania**

| Forms of knowledge development                | Finland |        | Hungary |       | Romania |       |
|---|---------|--------|---------|-------|---------|-------|
|   | 2006    | 2011   | 2006    | 2011  | 2006    | 2011  |
| Participating in life-long learning           | 20.9 %  | 21.4 % | 8.5 %   | 8.0 % | 1.1 %   | 1.4 % |
| Adult participation in education and training | 23.1 %  | 23.8 % | 3.8 %   | 2.7 % | 1.3 %   | 2.7 % |

Source: EUROSTAT, 2006-2011.

According to the Cedefop (2012) report, rather than tertiary education, firm-specific *Continuous Vocation and Training (CVT)* is playing crucial role in the innovation performance of the firms. In this field, there is a “... *divide between countries in Southern and Eastern Europe and those in Central and Northern Europe. The first are characterised by both low levels of training provision and low innovation performance, while the latter show relatively high levels of training provision and innovation performance.*” (Cedefop, 2012:40). Focusing the training practice in the countries involved in the Adaptykes project, we may identify the following patterns:

Firstly, following the international trend, the intensity of company training is shaped by the size category of the firm: larger firms provide more vocational training courses to their employees compared with the smaller firms.

Secondly, in the SME sector, in all dimensions of the company training practices (i.e. availability of training programs, share of participating firms, share of enterprises having a training plan and budget.) Finnish firms have the “leading-edge” position, followed by the Hungarian and Romanian firms. However, when considering the distribution of forms of training and the share of employees participating in the CVT courses Romanian firms have a better position than Hungarians.

Thirdly, in the group of the large firms, company training practice has both similarities and differences. Similarities were identified in the groupings of “enterprises which have CVT”, the “enterprises which have any type of CVT” and “enterprises which have any other form of CVT”. In contrast, visible differences were found in the field of “enterprises having a training planning/budget”: larger share of Finnish (80 percent) and Hungarian firms (81 percent) have

such types of activities than Romanians (52 percent). This pattern of division between Finland and Hungary / Romania was also found in relation to the “distribution of forms of training”, as once again, Finnish firms have a relatively better position (91 percent) in comparison with the Hungarian (79 percent) and Romanian (77 percent) ones. However, in the post-socialist countries a higher share of firms have “CVT courses“ and “any other types of CVT” than in Finland.

In relation with CVT courses, presented in the next table, it is necessary to stress the often underestimated impact on innovation of the informal forms of knowledge development (i.e. “other forms of CVT”). Beside formal organised activities for learning presented above,

*“... informal learning activities, which constitute the main source for tacit knowledge as well as the conditions that are in place for knowledge creation, are what is here called the knowledge enabling environment.” (Villalba, 2006:iv.)*

**Table 6: Continuous Vocational Training: the Adaptykes Countries in Comparison**

| Characteristics of training                                      | SME sector          |         |         |                             |         |         | Large firms (250-) |             |             |
|--|---------------------|---------|---------|-----------------------------|---------|---------|--------------------|-------------|-------------|
|  | Small firms (10-49) |         |         | Medium-sized firms (50-249) |         |         | Finland            | Hungary     | Romania     |
|  | Finland             | Hungary | Romania | Finland                     | Hungary | Romania | Finland            | Hungary     | Romania     |
| % of firms having CVT courses                                    | <u>62 %</u>         | 32 %    | 12 %    | <u>82 %</u>                 | 65 %    | 28 %    | 89 %               | <u>92 %</u> | <u>92 %</u> |
| % firms having any types of CVT                                  | <u>70 %</u>         | 43 %    | 12 %    | <u>91 %</u>                 | 74 %    | 36 %    | 90 %               | <u>95 %</u> | <u>95 %</u> |
| % of firms having any type of other forms of CVT                 | <u>51 %</u>         | 31 %    | 31 %    | <u>81 %</u>                 | 58 %    | 29 %    | <u>84 %</u>        | <u>84 %</u> | <u>84 %</u> |
| % of firms having training planning and/or budget                | <u>31 %</u>         | 11 %    | 6 %     | <u>60 %</u>                 | 38 %    | 20 %    | 80 %               | <u>81 %</u> | 52 %        |
| Distribution of forms of training                                | <u>67 %</u>         | 47 %    | 51 %    | <u>76 %</u>                 | 56 %    | 62 %    | <u>91 %</u>        | 79 %        | 77 %        |
| % of employees (only firm with CVT) participating in CVT courses | <u>49 %</u>         | 30 %    | 46 %    | <u>40 %</u>                 | 21 %    | 37 %    | <u>52 %</u>        | 24 %        | 42 %        |

*Source: EUROSTAT, 2011.*

## 4.2. Structural Capital Formation: Gap between Finland and the Two Post-Socialist Countries

The other important factor shaping the innovation capabilities of the firms is the structural capital which is identified here by the forms of work-organisation. Four types of work organization – representing different learning/innovation opportunities – were distinguished (Valeyre et al. 2009:9-13). In characterising the main types of work organizations, descriptive statistical and more sophisticated methods of analyses were used. A three-level variable measuring the use of team-work, distinguishing between autonomous and non-autonomous team-work and no-teamwork and 15 binary variables to measure characteristics of work (e.g. measuring task rotation, autonomy in work (both method and rate), various types of constraints in work (i.e. norm-based, hierarchical, horizontal, automatic), repetitiveness of tasks, monotony of tasks, quality supervision, task complexity and learning dynamics on the job (i.e. learning new things and problem solving requirements). Using these variables, multi correspondence and cluster analyses were used to identify the following forms of work organization:

1: *Discretionary learning forms* are characterised by the overrepresentation of the variables measuring autonomy in work, learning and problems solving, task complexity, self-assessment of quality of work etc. These characteristics of work correspond to the features of the learning organization or the adhocracy (Mintzberg, 1979) relying on “... *more upon individual specialist expertise organised in flexible labour market-based project teams capable of speedy responses to changes in knowledge and skills, and integrating a new kind of expertise to generate radical new products and processes.*” (Lam, 2005:127)

2: *Lean production*, in this type of work organization such variables as teamwork – autonomous and not-autonomous – job rotation and multi-skilling are over-represented. In addition, this category of work organization requires self-assessment of quality of work and demand driven constraints in work (i.e. indirect indicator of just-in-time production). This form of work organization has more limited learning and innovation capabilities in comparison with the discretionary learning form. For example, the archetype of this form of work organization is the “Japanese-organisation” or “*The J-form of organization relies on knowledge that is embedded in its operating routines, team-relationships, and shared culture. Learning and knowledge creation in the J-form takes place within an ‘organizational community’ that incorporates shop-floor skills in problem solving, and intensive interaction and knowledge sharing across different functional units...tends to develop a strong orientation towards pursuing an incremental innovation strategy and do well in relatively mature technological fields characterized by rich possibilities of combination and incremental improvement of existing components and products (e.g. machine-based industries, electronic components, and automobiles).*” (Lam, 2005: 128)

3. *Taylorist form* is characterised by hierarchical structures, various constraints in work, repetitiveness and monotony of tasks, however often teamwork and job rotation are used to improve flexibility of production or services (i.e. flexible or neo-fordism, Makó, 2005.) Required skills of workers or employees are limited and easily interchangeable either by other workforce or machinery. (Arundel et. al., 2007).

4: *Traditional or simple structure form*, where the working and managerial methods are not formalised/codified. Informality of working practice dominates. According to Mintzberg’s (1975) definition, the “simple structure” characterised by “*an organic type centrally controlled by one person but can respond quickly to changes in the environment, e.g. small start-ups in high technology.*” (Lam, 2005:120).

According to the secondary analyses of the European Working Conditions Survey 2005 (Valeyre, at. al. 2009), there are marked differences between the three Adaptykes countries. In Finland a higher share of employees than the EU-27 average (51.6 % versus 38.4 % in the EU-27) belongs

in the most innovative (discretionary learning) work organization followed by Hungary (38.3 %) and Romania where the share of the work organisation with high innovation/learning potential is well below (24.0 %) the EU-27 average. However, in this country the share of flat organizations characterised by limited learning capability is above the EU-27 average (33.4 % versus 25.7 %), similarly, the rate of the Taylorist or mass-production work organisation is also above the EU-27 average (27.6 % versus 19.5 %). Beside the good position of Hungary in the share of the innovative/learning organisation, we have to mention that the higher rate (i.e. above the EU average, 19.5 %) of less-innovative Taylorist work-organization. The existence of this dual distribution pattern of work organisation (work-organisation with high innovation/learning potential versus work-organisation with least learning/innovation potential) indicates the fragility or asymmetric nature of the innovation potential of the country.

**Table 7: Distribution of Work Organisation Classes by Adaptykes Countries (%)**

| Countries    | Work organisation classes |                 |             |                     | Total        |
|--------------|---------------------------|-----------------|-------------|---------------------|--------------|
|              | Discretionary learning    | Lean production | Taylorist   | Traditional, simple |              |
| Finland      | <b>44.9</b>               | 29.9            | 12.6        | 12.7                | 100.0        |
| Hungary      | 38.3                      | 18.2            | 23.4        | <b>20.1</b>         | 100.0        |
| Romania      | 24.0                      | <b>33.4</b>     | <b>27.6</b> | 14.9                | 100.0        |
| <b>EU-27</b> | <b>38.4</b>               | <b>25.7</b>     | <b>19.5</b> | <b>16.4</b>         | <b>100.0</b> |

*Source:* Valeyre et. al. (2009:22)

### 4.3. Innovation Performance: the Strength of Finland

In the field of investments in human and structural capital Finland visibly has a leading- edge position in comparison with Hungary and Romania. These investments through the development of absorptive capacity\*\*\*\* of the firms are creating an innovationfriendly working environment. As a result, Finnish firms are the best performers in both product and process innovation in all size categories of firms.

**Table 8: Technological Innovations in the Adaptykes Countries (%)**

| Forms of innovation | Small firms (49-50) |         |         | Medium sized firms (51-249) |         |         | Large firms (250 +) |             |         |
|---------------------|---------------------|---------|---------|-----------------------------|---------|---------|---------------------|-------------|---------|
|                     | Finland             | Hungary | Romania | Finland                     | Hungary | Romania | Finland             | Hungary     | Romania |
| Product             | <b>13.0</b>         | 6.0     | 1.9     | <b>12.7</b>                 | 10.0    | 3.5     | <b>15.1</b>         | 12.0        | 6.4     |
| Process             | <b>9.4</b>          | 2.0     | 3.1     | <b>11.4</b>                 | 9.0     | 4.6     | 8.4                 | <b>17.0</b> | 9.0     |

*Source:* Eurostat, 2010.

In relation to non-technological innovation, the following types were distinguished:

- marketing innovation,
- organisational innovation,
- new business practices for organisational practices,
- new methods of organising work, responsibilities and decision making,
- new methods organising external relations (networking).

Comparing these forms of non-technological innovations, the statistical analyses reveal rather different practices. In the cases of marketing and organisational innovation Finland has a leading role. The results of the two post-socialist countries indicate that in case of the marketing innovations, Romanian firms are in a slightly better position, however in the medium and large

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\*\*\*\* Absorptive capacity is generally defined "... as ability to recognise the value of new information, assimilate it and apply it to commercial ends. It is considered to be one of the most crucial aspects of an organisation's innovative ability and refers to the organisation's general ability to use external information and opportunities (e.g. new technologies or new forms of organisation) for its own innovation purposes." (Cedefop, 2012:19)

firms, their performance is rather similar. Romanian small and medium sized firm are more active in implementing organisational innovation, but in the large firm’s category Hungarian firms have better results.

In the case of the remaining categories (i.e. “new business practice”, “new methods of organising work” and “networking”) post-socialist countries perform better. Between the two post-socialist countries the following differences were found: in relation with the “new business practices”, in the group of small firms no differences were registered, but the Hungarian medium and large-sized firms have better position. Implementing “new methods of organising work”, in all size-category, Romanian companies perform better. Finally, in the case of “networking” Hungarian small firms, but in the case of medium and large firms Romanians have better position.

Finally, we compare the Adapykes countries by such complex indices as the Innovation Union Scoreboard (IUS) (Note: IUS is composed by 25 indicators containing enablers, firm activities and outputs. details: Cedefop, 2012:103). Both before and after the global financial crisis and economic downturn, we may say that Finland performed better than Hungary and Romania. The following table places these countries results into a wider European context.

**Table 9: Significant Varieties in the Innovation Performance of the EU-27 Countries (IUS – Eurostat)**

|                            | <b>Before financial crisis (2007)</b>  | <b>After financial crisis (2010)</b>   |
|----------------------------|--|--|
| <b>Above EU-27 average</b> | Continental countries (Except France),<br>Northern countries - <b>Finland</b><br>Anglo-Saxon countries | Continental countries,<br>Northern countries – <b>Finland</b><br>Anglo-Saxon countries |
| <b>Below EU-27 average</b> | Mediterranean countries,<br>Post-socialist countries<br><b>(Hungary, Romania)</b>                      | Mediterranean countries,<br>Post-socialist countries<br><b>(Hungary and Romania)</b>   |

*Source:* Makó, 2013.

## 6. Summary

Workplace innovations have positive impacts on the economic performance measured at both national and micro (firm) level. Being aware of the long-term social and psychological consequences of the high unemployment rate in the EU – especially in the young population – it is worth stressing the importance of the inclusive growth conditioned by the innovation. According to the experiences of the systematic empirical research carried out by the World Bank researchers “... more innovative firms hire a larger share of unskilled workers relative to non-innovative firms ... the share of the workforce that is unskilled contribute more to employment growth for firms that innovative (in products and/or process) than for non-innovators.” (Dutz-Kessides-O’Connell-Willig, 2011:25)

This comparative report aimed to map the context for the transfer of the *Finnish Workplace Development Program (FWDP) (TEKES)* experiences and to design the training content (curriculum) for the SMEs in the adopting countries (Hungary and Romania). By doing so, we analyzed the following issues:

1. Main features of the national economies
2. Characteristics of the SMEs
3. Interplay between human, structural capitals and innovations
4. Company case study experiences

Before considering the key economic indices of the countries participating in the *Adaptykes* project, it is worth stressing the key lessons learnt from the *FWDP (TEKES)*. The strategic characteristics of this program are the broad-based innovation policy and the shift from the exclusive focus on technological innovations to the non-technological and user-driven ones. In addition, the *FWDP (TEKES)* aimed to create and diffuse learning networks between the academic and business communities and the government agencies with the ambition to improve the collective learning capabilities of the social and economic actors involved into the Program.

*Comparing the national economies* in the three countries of the research consortium, Finland has the best position – the only exception is employment. In relation with the size structure or

organisational morphology of the economies, it is necessary to call attention to the long-dominance of the large firms in the former state-socialist economies (Hungary and Romania). However, in a historically short period of time, the size structure of firms became rather similar to Finland and other core member states of the EU.

*Identifying similarities and differences in the SME sector*, we have to stress the strength of the Finnish economy, which has the largest share of the middle-sized firms characterised by the internationally recognised high innovation potential in comparison with the post-socialist countries. In spite of the usual complaints of the Finnish entrepreneurs on the difficulties of creating and running business, the legal and administrative environment is the friendliest for SMEs in Finland, followed by Hungary and then Romania. Looking at the competitiveness of the national economies, Finland has a *leading edge* position and belongs to the ten most competitive countries. Hungary (ranked 48.) and Romania (ranked 78.) with a weak performance have a *trailing edge* position. In order to describe the business environment of the countries participating in the project, we used the World Bank's country level *Doing Business Indicator*. Using this indicator, in a sample of 185 countries worldwide, *Finland has the leading 11<sup>th</sup> position* and the two post-socialist countries in the Adaptykes project were underachieving with *Hungary 54<sup>th</sup> and Romania 72<sup>nd</sup> positions*.

The core section of the comparative report outlines the *interplay between human and structural capital and innovation*. In the field of investments in both human and structural capital, again Finland is the leader within the group of consortium members. Human capital investment was identified with the rate of participation in life-long learning and education/training as well as with the form of informal training (“other forms of Continuous Vocational Training”).

The rate of investment in structural capital is measured by the share of the “learning/innovative work organization”, indicating the firms’ “... capacity to adopt and compete through learning” (Green – Lorenz, 2010:9). In this field, Finland – similar to other Nordic countries – has a leading position within the EU-27 countries. The position of the two post-socialist countries is rather contradictory. For example, on the one side, Hungary has a rather high share of the learning/innovative form of work organization - i.e. around the EU-27 average. On the other hand, the share of the least innovative work organizations based on low-skill work is also high (i.e. much higher than the EU-27 average). In the Romanian case, the share of the learning/innovative work organizations is well below the EU-27 average, while the share of the

low-skill based work organization of mass production (Taylorist form of work organization) is well above the average. However, we have to note the higher share of “flexible versions” of the Taylorist work organization (or “flat” organization) in Romania than the EU-27 average. The share of the traditional Taylorist work organization in Romania – similar to Hungary – is much higher than the EU-27 rather high rate in the Romania, too.

Finally, assessing the *innovation performance of the countries surveyed*, various indicators of innovation were compared. In the case of “technological innovation” (product + process innovations) Finland has a clear leading position, similar with such types of “non-technological innovations”, ‘organisational’ and ‘marketing’ innovations. While, in the case of the remaining types of non-technological innovations (e.g. new business practices, new methods of work, external relations) – surprisingly enough – Hungary and Romania have a better position. In addition, using such a complex innovation index as the *Innovation Union Scoreboard (IUS)* – composed of 25 variables – Finland (before and after the global economic downturn) has a better position than the two post-socialist countries.

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