

Innovation key component for increasing competitive advantage

PhD. Candidate Ylvije KRAJA (BORIÇI)

Lecturer in Economic Faculty, University of Shkodra "Luigj Gurakuqi"

Prof.As. Dr. Elez OSMANI

Lecturer in Economic Faculty, University of Shkodra "Luigj Gurakuqi"

Dr. Emi BEJLERI

Lecturer in Economic Faculty, University of Shkodra "Luigj Gurakuqi"

Abstract

This paper examines the importance of innovation as a key component for increasing competitive advantage and as a determinant factor for success and growth of the businesses. It discusses the need and importance of knowledge, intellectual capital and innovations in nowadays. It will then be followed by a short theoretical overview of the background.

It shows how the innovation is often considered to be a vital source of strategic change, a sustainable competitive advantage, by which a business generates positive outcomes. Innovation is a broad concept and it's a key source of competitive advantage for businesses especially now that globalizations presents challenges for countries, businesses and individuals. We will see that innovation leads towards the best performance, but of course this needs time, this is not the automatic process, the innovation does not happen naturally by itself.

We will go through and see what is the relationship between: creativity, research and innovation. In the end we will see that having a very good innovation management system is very important for the businesses and it is very important for the future.

The purpose of this study is to see the impact of innovation in businesses performance in the Albanian economy. We will show here how the innovation leads towards the best performance. This article will contribute to better understand the organizational resources that impact the innovation process.

We will use primary and secondary method. Interview is the main tool used, face-to-face interviews are essential for this survey. This paper is followed by a summary of the results of survey and the last part draws out the main conclusions as well as recommendations. But of course we will see that this needs time, this is not the automatic process, the innovation does not happen by itself.

Key words: innovation, competitive advantage, performance, creativity, research

1. Introduction

In 1990, more than twenty years ago, Albania started its transition towards the market economy. The isolation of Albanian for many years during the communist regime left the economy in the large backward. In the transition economy a lot of things have changed. So far the Albania economy has achieved remarkable progress. However, despite these positive achievements there are a lot of the challenges faced by the Albanians businesses.

In this period we have a lot of businesses, especially small businesses that were growing up. We have seen these small businesses as a driven force for job creation, for growth and competition. Already competition among businesses, cities, regions is getting bigger. Priority was

given in that period the SME-s, these to be successful should have competitive advantage.

A lot of businesses see the innovation as a key component for having competitive advantage. Small businesses do not have research department, but this doesn't mean that they do not have innovation in the small businesses. Because of, complexity and diversity of technology, many businesses are experiencing a lot of difficulties in having access in technology. The access in technology by small businesses can be better achieved by having innovators. External and internal sources play a great role in innovation.

In order to enhance the future prospect of small and medium enterprises in Albania there is a need to create an

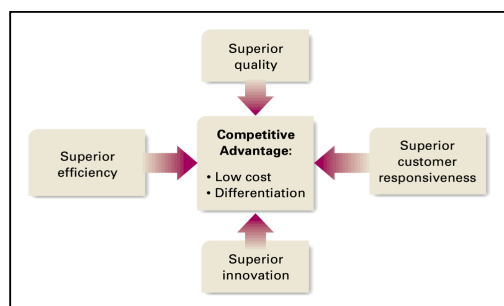
environment for their sustainable development and this can be created having a competitive advantage, through innovation or other different ways. We will focused on this paper to see the role of innovation in creating the competitive advantage. How have been the businesses here in Albania creating the competitive advantage. Do they see innovation as a key component for increasing competitive advantage

2. Theoretical framework

2.1 The generic building blocks of competitive advantage

Competition is growing rapidly on these days of globalization. Competitive advantage is defined by Barney (1991) - "A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy¹. The importance of innovation is increased continuously.

The Generic Building Blocks of Competitive Advantage



2

According to Spence (1995) innovation is often used to indicate something new, created or produced. Innovation is one of the most important factors of competitive advantage. Innovation is a broad concept that is define in a variety ways. Innovation is work rather than genius,...and very much a matter of discipline (Peter F Drucker, 1985). Innovation includes advances in the kinds of products, production processes, managements systems, organizational structures.

"Innovation must communicate value-e.g. social, economic, etc. Without a normative measure of value, it is impossible to translate how e group benefits".³ "Innovations are products, services, solutions, or processes that have no logical antecedent and are value - creating to a core audience." The value of an idea or technology depends on its business model (Chesbrough 2006).

The creation of something that was unknown previous is innovation. It is the result of hard work, well planned and executed and is no happening.

Innovation is a key of competitive advantage for clients. With product innovation we mean different things to

different people. The innovation can be found at individuals and at the firm.

The company's ability to create value and to innovate depends on industry conditions. The potential for value creation and for innovation depends on how the market demand compare with the industry demand.

2.2 Dynamic capabilities

Even though sources of sustained competitive advantages are based on and focused on valuable, rare, imperfectly imitable and non-substitutable resource endowments (Barney 1991), it does not anymore explain adequately why certain firms have competitive advantage in situation of rapid and predictable change (Eisenhardt and Martin 2000).

2.3 The role of innovation in sustainable growth

The current economic situation in our region has major constrains on the development of the social innovation. A key challenge for the Albanian economy is to carry through the transition to market economy and to create and favorable conditions for economic growth. Consumers have high expectations from companies and governments. A key determinant of innovation performance is: favorable macroeconomic environment, a positive business environment, such as low inflation, stable interest rate, investment help to encourage innovation.

Most of the firms view innovation as a key driver for growth. Innovation is a driving force of economic development. Often innovation is considered to be a vital source of changing. Innovation creates competitive advantage by which a firm can generates positive outcomes for this reason innovation has been for years the subject of analysis and research. Based on the economic, growth is a function of changes in the capital and labor.

SME-s play a key role in the growing up of the most of economies. SME-s differ from the large firms. Decision making is not formalized in the SME-s. Often small firms are more innovative and more efficient that large firms.

There are some barriers that make innovation hard for most of the SME-s such as;
financial problems, financial constraints as - high innovation costs, high risk;
finding qualified- suitable cooperation human resources, missing project management knowhow;
marketing of innovative products- missing marketing know-how.

2.4 Individuals and groups

Innovations begin with the attempts that everyone does. The efforts of one or more individuals within a firm play a great role in innovation. For many products the innovations comes from individuals that use the products in their life, at home or at work. Innovation, according to Rogers (2003), is "an idea, practice, or object that is perceived as new by an individual or other unit of adoption".⁴

How can innovation encouraged? What motivates individuals and firms to innovate? Innovation can be driven and can be enabled by the technology. Innovation cannot happen in a static environment. There is a relationship between business innovation and research. The research

¹ Barney, J. (1991) Firm resources and sustained competitive advantage. *Journal of management* fq 102.

² Source: http://www.google.com/#hl=en&gs_nf=1&cp=21&gs_id=28&

³ <http://ideas.economist.com/blog/defining-innovation>

⁴ Everet Rogers (2003) *Diffusion of Innovation, Fifth Edition*

increase creativity and helps going towards innovation. Business Model Innovation is key factor. Innovation can happen in several aspects as in business operation, in production line, marketing, in finance and human resources.

2.5 Research and innovation

Innovation is linked to research, but innovation encompasses more than technology changes. Innovation and research generate benefits for society. Innovation is influenced by some factors such as - R&D infrastructure, macroeconomic environment, skilled and qualified workers, access to capital, the competitive environment etc. A graduate generation, graduate students play an important, a great role in the research process

Our point of view is that firms collaborate with universities. Universities research play a great role in innovation. factor. For this reason it's important for companies to attract qualified managers, researchers and workers. They should be able not only to develop new or improved products or technologies but also to implement those new technologies in their organizations.

Innovation is not important just for the private sector, it is as important for private as for state sector or even nonprofit organizations.

Of course that innovation is based on ideas. It's true that without ideas there is no innovation, but the most important part, the most hard part is how to implement the changes that should be made.

Research and innovation are important because they can be apply and so they will contribute in economic development. In general, large firms are more innovative than small firms. Most of the firms innovate in order to be competitive in the market, to have and competitive advantage. Innovation in an industry is an barrier to the others. It creates possibilities to share a large part of the market. "Innovation means more than creating just new products. It also means capturing new customers with new requirements, taking risks by developing and entering newer market segments." ⁵

2.6 Ideas generations

Ideas come mostly by the team work, and brainstorming, these are the internal factors for generation ideas. Of course the great role play the customers, just a few ideas come from external consultants even by the competitors. Innovation is an important condition for a firm to be successful. We see often how the managers or the owners of the business are surprised that how their incomes are going down or they are going towards bankruptcy. This is because there is a lack of innovation.

Sometimes there is the idea that only businesses that are based on technology need innovations. That's wrong. In fact, this is not right. Innovation is even the redesign of the product, or a new way of packing of the product.

Talking about services, innovation maybe even the way that you communicate with your customers, or how fast do

you serve to your clients, the increase of the quality of your products or services. In both cases the increase the quality of the products or services is the innovation.

A owner, a manager should be able to be successful, to be innovative even without being inventor. He should have brilliant ideas, he should be able to see the possibilities that others cannot see. He can do innovation using different way of thinking, different way of behaviors and different way of preparing and implementing the strategy. Hence, such an individual for a short time will be successful.

3. Methodology

3.1 Study aim

The aim of this paper is to find out if the businesses small, medium or large one pay attention to innovation. We will show here how the innovation leads towards the best performance.

3.2 Research question?

Businesses to be successful should have a clear vision for the future, so is it innovation part of the strategic management a way to increase the competitive advantage

3.3 Research method

We will use primary and secondary method We have used literature that was oriented towards competitive advantage, innovation. For this survey we used primary and secondary sources. Something about contents of the questionnaire.

In the questionnaire we used two types of questions, The one type is used to give the respondent possibility, to make suggestion, and the closed type is used for data elaboration.

We had contact with more than 30 businesses but most of them were indifferent about the innovation. For about 16 of them innovation was a matter. As they said with innovation they do mean doing something a little different by the others. We had face to face interviews with managers, owners of the small and medium size businesses and two of them were large one, which were essential for this survey. Is it hard for you to innovate?

There were 16 firms that were interview all of them agreed that it was hard for them to innovate.

3.4 Survey results.

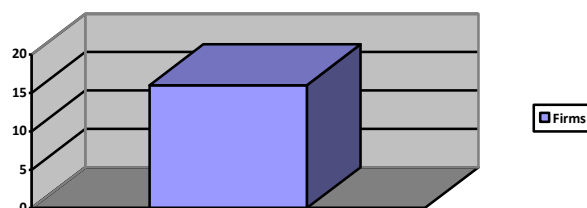


Figure 1. Is it hard for you to innovate?

The figure above shows us that how difficult is for different firms to be innovator. All of them see the innovation as something really hard. The figure 2, shows us that how familiar are these firms with creativity and innovation management. From the graph it is clearly understood that none of them were very familiar with creativity and innovation, just one of them was familiar, we have 4 of them moderately familiar, and we have 44 % of them, (7 of them) were not really familiar and the rest, 4 of them (25 %) were not at all familiar.

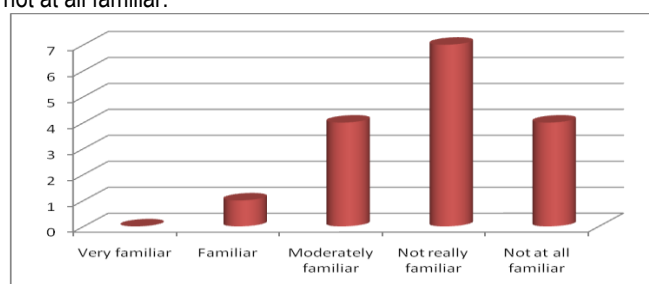


Figure 2: Are your familiar with creativity and innovation management?

Are there financial problems, financial constraints as -
high innovation costs,
high risk;

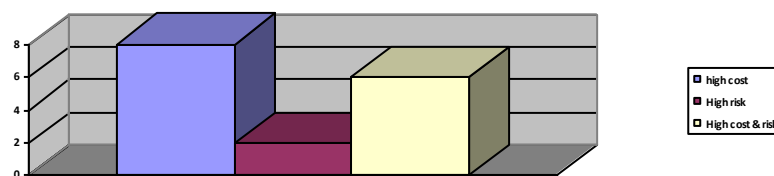


Figure 3: Are the financial constraints high innovation costs, high risk or both of them?

It is clearly by the graph above that innovation is not easy, it has high risk, almost 8 of 16, which means 50 % of them see innovation as high cost, for 2 of them is also risky and for the rest, 6 of 16 (38 % of them) see innovation as costly and risky.

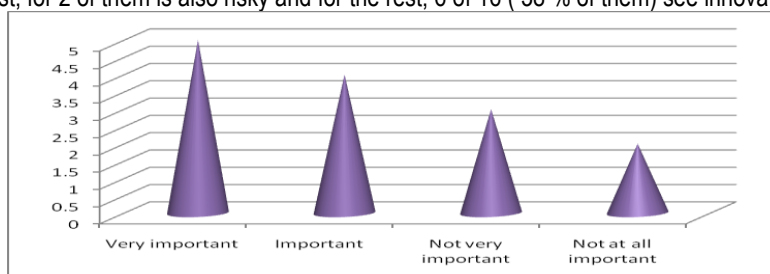


Figure 4: How important is individual creativity and innovation?

By this questions we wanted to know that how important is individual creativity and innovation

As far as we see, 5 Of them let us understand that individual creativity and innovation is very important, for six of them it is important, for 3 of them it is not very important and for the rest it is not at all important.

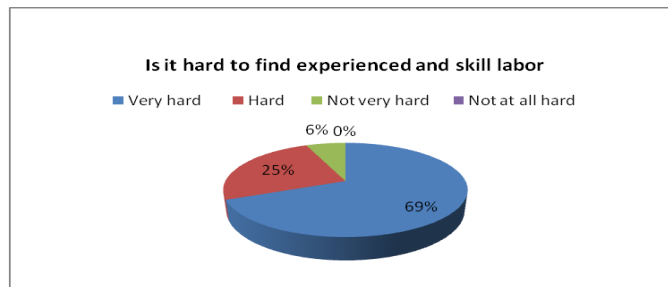


Figure 5. Is it hard to find experienced and skill labor

Pertaining to the question is it hard to find experienced and skilled labor 11 of them or 68% of them said that it is really hard to find the right people, to find the experienced and skilled labor, for 4 of them it was really hard or let say for 25% of them it was hard, one of the large businesses said that it was not very hard.

Is it lack of the qualified human resources a barrier to innovation? As it can be noticed from the chart below the situation is difficult. In reality we have a lot of qualified people, qualified in and out, but maybe the businesses do not see those as resource for their businesses. The chart offers some pessimistic about the human resources.



Figure 6- Is it lack of the qualified human resources a barrier to innovation?

Would you be interested in using tools that will enhance creativity and innovation management. within your organization/business. The figure down shows how much interested are those businesses in increasing creativity and innovation management.

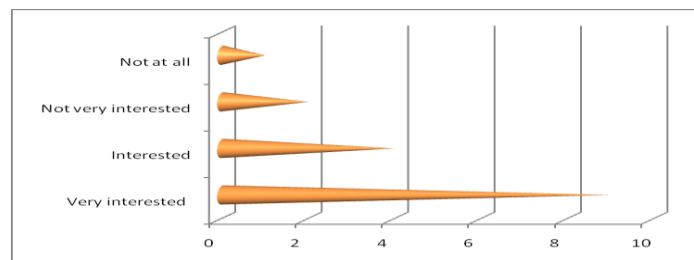
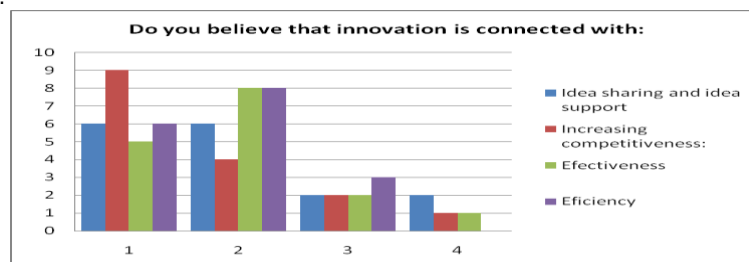


Figure 7- Would you be interested in using tools that will enhance creativity and innovation management within your organization/business?



The figure above shows us that we were interested in knowing that how do the businesses believe that innovation is connected with:

- idea sharing and idea support,
- increasing competitiveness,
- effectiveness,
- efficiency:

So most of them see these factor as the way of increasing the innovation, especially they think that increasing competitiveness is connected with innovation.

CONCLUSIONS AND RECOMANDATIONS

We think that now it's time that businesses to obtain a competitive advantage must create more values than its

competitors. To have competitive advantage the company must have product innovation, process innovation or transaction innovation, but few businesses do well

innovation. It's important to mention that innovation is more than technology and also there is a difference between research and innovation.

Innovation deliver different value. In our economy, in every field, the importance of innovation is increasing every day, let's take for example tourism, tourism is successful if these bring something, new, something different by the others. That's what our businesses are doing right now to be successful.

Based on the survey we may conclude that everywhere, but especially in our economy, economy of transition, research and innovation generate benefits for society.

We concluded that where there is innovation the company, the region will realize benefits in terms of economic

development, improved decision-making, improved competitiveness.

We suggest that should be increased investment in research and development by the private sector and also by the government.

Graduate students should be involved in the research process because they play an important role in this process. The universities should play a key role in the innovation process. Businesses should have close relationship with universities. A problem that we really see as particularly acute problem for small businesses is co-operation.

REFERENCA

- Barney, J. (1991) *Firm resources and sustained competitive advantage*. Journal of management
- Alar Kolk (2007) Helsinki University of Technology. Institute of Strategy and International Business. *'Developing dynamic capabilities and open innovation; open business model; dynamic capabilities; collaborative know-how; lead users and outside innovation.'*
- Charles W.L.Hill & Gareth R.Jones (1998) *Strategic Management Theory*
- Goran Roos, *The management of Knowledge Creation and Innovation Through an Intellectual Capital Lens*
- Rajnish Tiwari & Stephan Buse (2007) Barriers to Innovation in SME-s: Can the Internationalization of R&D Mitigate their effects? (Working paper)
- Everet Rogers (2003) *Diffusion of Innovation*, Fifth Edition
- Brychan Thomas; Christopher Miller, Lyndon Myrphy (2011) *Innovation and small business*. Volume 1; Ventus publishing ApS
- Brychan Thomas; Christopher Miller, Lyndon Myrphy (2011) *Innovation and small business*. Volume 2 Ventus publishing ApS
- Spence, W.R (1995) *Innovation: The communication of change in ideas, practices and products*, Champan & Holl, London, p.4
- <http://ideas.economist.com/blog/defining-innovation>