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ИНОВАЦИИ И КОНКУРЕНТНО ПРЕДИМСТВО НА ФИРМАТА

INNOVATIONS AND COMPETITIVE ADVANTAGE OF THE COMPANY

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Abstract: In the present article it was made an attempt to analyze some aspects and opportunities for the application of modern innovations and innovative forms by which it can be raised the competitiveness of tourism enterprises. It was made an attempt to analyze the advantages and disadvantages of some innovative forms in an organizational and management aspect, through which companies can become more competitive within the context of a dynamic and changing environment, characterized by a high degree of uncertainty and risk. It is considered the vital importance of new technological developments, marketing strategies and human resources as an essential element in the process of innovation. The innovation capacity of a company is considered and evaluated as a function of the intellectual assets of knowledge, research and the ability to use those assets. It is analyzed the importance of the real relationship between education, science and business as a crucial factor for the determination and successful application of innovations.

Keywords: innovations, competitive advantage, competitiveness, human resources, business cooperation, technological developments

Nowadays companies are forced to operate in a highly dynamic and uncertain environment. In this highly competitive environment, the goal of any organization is to be competitive, to attract new customers and after a good prognostic analysis - to ensure sustainability of its efficiency and its own stable market position not only in the short but in the long term, as well. The bigger companies make significant investments in order to be able, by means of experience and science, to ensure their sustainability and stability in the long term. For this purpose, these companies create think tanks and use the potential and capacity of highly qualified professionals to shape their behavior in the competitive market environment. Companies try to achieve a competitive advantage which will help them obtain a better and stable market position. One of the best ways to achieve competitive advantage is the approbation and use of innovations. The human resources possessing knowledge, skills,

and competencies represent a powerful tool for generating ideas which can later turn into innovations. Due to their creative potential, knowledge, skills and abilities, it is possible to generate innovative ideas which can help organizations achieve the desired competitive advantage.

The present paper discusses some aspects and opportunities for the application of modern innovations and innovative forms through which companies can enhance their competitiveness.

Researchers, businessmen and politicians show interest in the problems of modern companies' competitiveness. There is an obvious correlation between the competitiveness and the effectiveness of a company's activity in the short or medium term. It is wrong, however, to consider them identical. Economic efficiency is a necessary but not sufficient condition for achieving the company's competitiveness. Michael Porter clearly emphasizes that the competitiveness of an enterprise is different

from the effectiveness of its activity. It is necessary to take into account the company's ability to continually update and adapt itself to the changing conditions, together with the company's competitive advantage to its competitors.⁵⁰ The effective management today leads to positive results, but if the company does not create innovations for tomorrow, there is no way to guarantee its success in the future. Only through sustainable and continuous innovation management can the sustainable and continuous success of the company be ensured. Good management requires realizing that the application of an innovation does not find a definitive solution to a problem. Innovations must be seen as a continuous process over time. Once applied in the production area and services offered by a company, they become a reality in the process of innovation economy. Thus, in the future there should be introduced new innovations different from the existing ones– with the assumption to keep the current consumers while continuously trying to attract new ones. Any competitive advantage is temporary and is quickly duplicated by the "opponents" in the market. Therefore one must continually seek ways to duplicate and even further multiply the competitive advantage. According to M. Porter, one must take into account some determining characteristics such as resource conditions, company structure, strategies and competition, domestic demand conditions, related and supporting production.⁵¹ The interactions of determinants in the „diamond theory" of M. Porter are the key to improving and maintaining a competitive advantage in the development of an industry.

Competitiveness is inherent to every entity and is expressed in the conditions of market competition. In this sense, these concepts are interrelated, such competition is a prerequisite for competitiveness. According to Mladen Veleв "The

⁵⁰ Портър М, (2004) Конкурентното предимство на нациите, Класика и стил, София

⁵¹ Портър М, (2004) Конкурентното предимство на нациите, Класика и стил, София, р. 690

competitiveness of a company is its ability to create and sustainably maintain competitive advantages (through continuous innovation and improvement) leading to high economic performance in the long term."⁵²

Tetar Shoeu believes that competitive advantages are key factors that should be maintained and developed, the question is which competitive advantages are sustainable over time and more profitable to the company.⁵³

Heraclitus (500 B.C.) said that change is the most constant thing, i.e. innovation is the most sustainable competitive advantage.

According to Michael Porter "competitive advantages essentially stem from the improvement, innovations and change."⁵⁴ According to him and other authors, there exist different effective innovative forms which significantly affect and lead to increasing business and industrial competitiveness. Examples of such forms are clusters, outsourcing (offshoring in particular) and franchising.

Christian Ketels and M. Porter define clusters as groups of companies and institutions co-located in a specific geographic region and linked by interdependencies in providing a related group of products and/or services. They are characterized in the following way:

- Proximity – in order to be guaranteed a good exchange of information and resources;
- Relationships – in order to benefit from the proximity and interaction;
- Interactions - since proximity alone is not enough;
- Critical mass - a sufficient number of participants to ensure a significant impact on the companies' indicators.

⁵² Велев М, Изследване на влиянието на организационно-управленските иновации върху конкурентоспособността на индустриалните предприятия

⁵³ Tetar Shoeu, (2008) Gain and lost competitive advantage, Innovation Management Volume 6, Number 3, p.12

⁵⁴ Портър М, (2004) Конкурентното предимство на нациите, Класика и стил, София, р. 690

For example, the tourist cluster aims at strengthening the uniqueness and identity of a destination. The territorial cluster includes stakeholders' participation in local government and allows for the sharing of good practices. The vertical cluster brings together the skills and know-how of a chain of contractors- suppliers - subcontractors, which is led by a leader. The members of the "group buying" cluster benefit from the significant savings which are characteristic to this type of cluster. This cluster occurs spontaneously, without necessarily having a leader, it is often self-financed and exists formally or informally.

The outsourcing as an organizational and management solution enables the contracting out of business activities and / or services to third parties. It is equally useful for both small and large companies in order for them to achieve high quality performance and at the same time to save money. One of the widespread forms of outsourcing is offshoring, which is essentially relocating of production or services to another country (creation of a branch or acquisition of a company in the country).

Franchising is a type of relationship between entities. It is the practice of leasing for a prescribed period of time the right to use a company's successful business model in a given sector. In other words, companies with their strong positions and brand in the market give license to companies wishing to take advantage of this, most often after paying the corresponding fee.

Today, all companies are facing competition, which, on its turn, is getting more intelligent. Sometimes it is not related to the solution of a large strategic problem. In many cases, competition is associated with some seemingly "minor stuff". Sometimes this stuff seems insignificant and minor, but it is exactly this kind of innovation problems which, when solved, lead to very serious competitive advantage and sharply increase the effectiveness of the product or service. For example, in the spheres of apparel production, production

of packaging, etc. the optimization of cutting leads to minimal savings of materials per product unit. These small savings lead to serious profits and hence greater competitiveness when mass production is at hand (cigarette boxes, packages, textiles, etc.). Therefore, all companies need to be in constant search of conditions for creating not just one but several competitive advantages. Thus, each of these companies is in search of some kind of innovation, doing something different from the rest, or doing the same things as them but in a different way.

Many companies implement new game strategies in search of competitive advantage or just a way to earn more money. Company's competitive advantage is its ability to obtain higher profit than the average one in the market where it competes. Since revenues come from customers, each company has to offer them benefits that they perceive as valuable if compared to those that the company's competitors offer. Therefore, an important step in gaining a competitive advantage is creating unique customer benefits without increasing the costs for these benefits, thus creating their unique value. In order for the company to implement these activities effectively, it should have the necessary capacity and resources. But even this unique value cannot guarantee that someone will take advantage of this.

Any new strategy has competitive consequences. Depending on the chosen strategy, the company may have a sustainable competitive advantage, temporary competitive advantage, competitive parity or competitive disadvantage.

The sporadic application of innovations does not mean that the companies have sustainable competitive advantage. Such an advantage will be achieved only when an appropriate overall corporate strategy is at hand. It should be broad, based on a rigorous analysis, prognosticating and planning, taking into account the company's good practices, its traditions and the anticipated potential changes associated

with the future requirements of the market environment.

The new technological developments are a necessary but not sufficient condition for creating competitive advantage for at least two reasons. First, they require financial and technological resources, which are often difficult to maintain, and secondly, the obtained competitive advantage is not sustainable over time. The main problem is how to ensure this sustainability because competing companies quickly "share" and copy the advantage and find their place in the market. The most interesting fact is that in many cases, it is not just the price and the quality of the products or service that attract the interest of the consumer. It turns out that a product or service (their successful establishment in the market in particular) depends not only on their quality and functional utility to the consumer, but on their symbolic meaning, brand image and social importance, as well. As an example it can be mentioned the fashion brands Prada, Gucci, Armani, etc. A lot of companies which are competitive in the market, pay attention to purely psychological effects that influence consumers' "emotions". It is achieved through massive TV, Internet, and other kinds of advertising. Thus, they impose stereotypes of behavior, lifestyle and essentially affect the value system of consumers. It is extremely important to impress on the consumer that this is the product that is suitable for him/her, which builds his/her image, which demonstrates his/her position in society, his/her prestige. It happens very often that the brand sells the product without guaranteeing functionality and low prices. The customers' desire to belong to a particular class in society, to be identified with certain elite groups in society, snobbery, fashion and keeping up with the fashion trends often guarantee a competitive advantage.

At the same time we are witnessing the counterpoint, the response of other companies relying on another type of competitive advantage. For example, directing its products to the younger and not

that rich consumers, recognizing in a purely psychological aspect young people's willingness to have an abundant wardrobe of clothes and accessories, many companies obtain their competitive advantage in another way. Keeping up with the fashion trends, they rely on cheap, trendy products, earning their profit through greater turnover, counting on low prices and mass production and consumption. As a confirmation of what was said above, I will give an example with the products of the companies Zara, Bershka, N&M, etc. In other words, some of the companies seek their competitive advantages in different market sectors depending on customers' age and financial capacities.

The bigger companies with good marketing strategies try to create competitive advantages not only in one, but in many different areas. Such an area is the cost-effectiveness and the high cost of transfer to competitors. Within the EU, however, due to the existing Laws on competition and Anti-monopoly laws, it becomes more difficult for companies to implement their ideas and intentions in this direction. A major obstacle is the legislation that seeks to ensure and protect consumers' rights. The market share is another area in which companies try to create a competitive advantage. It is obvious that if a company has a significant market share, it has better opportunities for profits in comparison to its competitors. Of course, sooner or later, new players appear in this "big market share", having realized the existence of a wide gap, which leads to the infiltration of new industrial and commercial entities.

With the existence of the new information technologies, the creation of competitive advantages based on the network effect is becoming increasingly important. This in most cases leads to the creation of a dominant market share (ebay, amazon, etc.). If we add to the abovementioned the trademarks, patents and the effective cost structure, we will receive a fairly good picture of the main areas in which the company must seek

competitive advantages. In order for this picture to become even more complete and representative, it must be added some other areas and aspects of searching and achieving effective competitive advantage. The dominant factor to be looked for is uniqueness of the competitive advantage by creating unique products and services aimed at the general market. The competitive advantage should be difficult to copy in order to eliminate or limit to the utmost the other players in the market. The competitive advantage must be sustainable not just over time. It must be directly related to the identity and competence of the company, i.e. it should be in conformity with its traditions and profile. Warren Buffett talks about companies with "sound economic fundamentals", referring to companies with the so-called "sustainable competitive advantage". He claims that it is exactly this kind of companies that are the best companies to own, manage, invest in them and work for them. It turns out that it is exactly this kind of companies that offer the greatest opportunities for career development and job security, that have long-term profits and create long lasting competitive advantages. These companies dominate the mind of consumers, have a high degree of profitability and turnover of stocks. It is obvious that the effective competitive advantage should be universal and applicable to different situations.

Companies are pressed by other companies that offer the same or similar product or service. On the other hand, they are pressed by customers expecting more and more of the product or service that they consume. In order to cope with the new conditions and situations in the market, companies are constantly looking for new ways to produce their goods, namely offering new products or improving the existing ones. In other words, they need to continually create innovations. But what is innovation?

It is known that innovation is a process of transforming new ideas and knowledge into new products and services. Companies create opportunities for innovation in order

to protect their existing competitive position and find new competitive advantages. Innovations are the key source of competitive advantage that determines the economic success of any organization. If companies want to survive and thrive in the current dynamic environment, they should make every effort to introduce an innovative approach and creativity. Knowledge is a key element in the innovation process. In the present highly competitive environment, it is innovation that leads to achieving advantage over the others. Achieving greater competitiveness through innovation means producing cheaper products with better quality than those produced by competitors.

Today, the existence and success of an enterprise is associated with innovation. Most successful companies in the world exist in the market due to their superior ability to innovate. Almost every company is trying to innovate. Following the logic of innovation economy, we arrive at the conclusion that companies should add innovation to their products or services, not only to satisfy consumers' needs, but to exceed their expectations, as well. The term "innovation" was used for the first time by Schumpeter in the early 20th century.⁵⁵ His ideas and research were further developed by many other authors. Schumpeter defined innovation as a product, process and organizational changes that does not necessarily derive from the new scientific findings, but can occur as a combination of already existing technologies and their application into a new context. Innovations are also often driven by public research. It is therefore possible to conclude that according to these definitions innovations cannot be identified with technical and technological changes and improvements only. More specifically, they should be identified with the practical application of the results of some research.

Human capital and the creative research are crucial factors. A concrete proof, for

⁵⁵ Schumpeter, J. A. 1934. *The Theory of Economic Development*. Harvard University Press, Cambridge, MA

example, is the successful implementation of pilot technologies developed to serve the needs of military complexes and space programs. Science, research and scientific achievements are an integral part of the innovation process. It is not by chance that the interdisciplinary approach to research is becoming increasingly important in contemporary science. In the recent years, it is rising the number of mathematicians who have become Nobel Prize laureates for their achievements in the field of economics. Nowadays, every economist who wants to gain thorough and fundamental knowledge of economics should be able to use the mathematical tools provided by mathematical modeling, quantitative methods, statistics, game theory, theory of risk, mathematical optimization, etc.

It is obvious the need for training personnel with knowledge, skills and competencies relevant to the dynamic needs of innovative development. It is not surprising that in the Europe 2020 strategy and the National Development Programme: Bulgaria 2020 the key words are smart, sustainable and inclusive growth in the EU, with high living standards. The objectives set are not limited to just overcoming the crisis. The goal is to establish knowledge based economy through innovation and new technologies. In the field of education the share of early school leavers should be under 10% and at least 40% of the people aged 30-34 should have a tertiary degree.⁵⁶ The fast pace and the dynamics of the innovation processes increase the importance of relevant and dynamic education as a continuous process over time. Unlike the end of the last century, when technological changes were carried out relatively slowly, sometimes it took decades for a change to occur, now it is absurd for a professional to consider his/her education finished after four or five years of study. Professionals who possess high qualification, relevant to the requirements of the market and the new technologies,

⁵⁶ EUROPE 2020: A European strategy for smart, sustainable and inclusive growth

continuously improve their level and qualification in the working process. Therefore, nowadays "lifelong learning" is a keyword in the field of education. The Bachelor's degree provides students with relatively fundamental and theoretical knowledge. Even the Master's degree, which upgrades knowledge to skills and competencies, devalue rapidly over time due to the high dynamics of technological development in every sphere. Practical trainings, continuous qualification upgrading, creation of infrastructure for intellectual, research and innovation activities turn the human capital of the company into a key element ensuring the company's active participation in European and national innovation policies. The Europe 2020 Strategy's target to invest 3% of the EU GDP in research and development, and 6% in education, together with some other targets related to global problems such as poverty, climate change, depletion of energy resources, environmental pollution, etc. obviously determine the priority direction to smart, sustainable and inclusive growth.⁵⁷ In order for these objectives to be achieved there should be established high-tech centers, performing cutting-edge research and using high speed internet. It is required the establishing of energy infrastructure, thus reducing the energy intensity of production, encouraging the using of renewable energy sources and the creation of intelligent transport infrastructure.

The human factor is an irreplaceable element in the innovation process. People are the ones who generate ideas that could help a company to achieve competitive advantage and thus to take a leading position (compared to its competitors) for a certain period of time. The innovative capacity of a company depends directly on its intellectual assets of knowledge and skills, and its ability to use these assets. Since knowledge is becoming a major factor when innovating and implementing new technologies, professionals' individual

⁵⁷ EUROPE 2020: A European strategy for smart, sustainable and inclusive growth

and practical training plays an increasingly important and essential role in the generation of new ideas for business. To our great regret, however, the tangible relation between education, science and business in Bulgaria is non-existent. Several studies in the EU and the U.S.A. have shown that the effective functioning of the business, education and science triad, stimulates innovation processes, technological advances and the possibility of mutual sharing of resources and knowledge.

Another thing which is very important, especially for smaller organizations and companies, is business collaboration. It is the easiest way to transfer knowledge and know-how in the production network, since this type of companies, unlike the big ones, do not have the ability to directly cooperate with major technological centers. To them, business cooperation is the most natural and easiest way to share resources and knowledge. Therefore, cooperation with other organizations and companies is becoming a new and important source of competitive advantage for small and medium-sized businesses.

Innovation management changes. The introduction and implementation of new ideas is no longer the bastion of large R & D centers in the vertically integrated organizations. Instead of this, innovations reach the market through networks of firms, selected according to their comparative advantages and acting in a coordinated manner. In this new model, organizations deconstruct the innovative chain created with partner sources who have lower costs, better skills and / or access to knowledge that can provide a source of differentiation. The aim is to establish mutually beneficial relationships through which new products and services will be developed. In short, more and more companies are trying to improve their business in terms of innovation through collaboration. This new model of corporate behavior for innovation through collaboration derives from a number of contemporary trends that force companies to rethink the traditional

conception of attitude to their competitors in the market. In the information society of today, disclosing trade secrets and practices proves to be beneficial to all players in the market, unlike the society of the 18th and 19th centuries, when trade secrets were totally confidential. First, the complexity of products and services is increasing due to the use of a number of modern technologies. It is no longer possible, and not within the reach of each company to master this complex process, all these complex skills and technologies for the creation of a product. Secondly, the availability and use of cheap skilled labor in developing countries stimulates the replacement of costly goods for cheaper ones. Thirdly, in different regions of the world there have been developed unique skills and abilities associated sometimes with the national psychology in these countries. Some leading companies take advantage of them in the positive sense – they are using them as an advantage. Finally, the progress of development tools, in combination with the advent of open architectures and standards reduce the costs for coordinating the distributed work. In other words, cooperation and "sharing" are becoming a competitive necessity, which is increasingly becoming imperative for all participants in the market.

We can summarize that the importance of innovations and necessary knowledge is usually extremely important to all companies, regardless of their characteristics, economic sector, place and importance in the market. It becomes clear that both large and small organizations need to focus on innovation and the creation of appropriate and innovative culture. Innovations are the key source of competitive advantage, which determines the economic success of any organization. If companies want to survive and thrive in today's dynamic environment, they should make every effort to introduce an innovative approach and creativity in their businesses.

One of the most important goals of any company is to create conditions and to reach sustainable competitive advantage.

This will enable the company to return the capital invested, to be a serious economic entity and participant in the market. All this will ensure the development and prosperity of the company. The lack of serious

innovation strategy, creating conditions for competitive advantages of the company usually leads to cyclical ups and downs, to bad economic fundamentals and risky prospects for the corresponding entity.

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