

WHY IS IT SO IMPORTANT FOR SMEs TO INVEST IN COMPETENCE DEVELOPMENT ACTIVITIES?

DE CE ESTE IMPORTANT PENTRU IMM-URI SĂ INVESTESCĂ ÎN ACTIVITĂȚI DE INOVARE

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Abstract: *In this paper we studied Why is it so important innovation to the business itself? First, because innovative firms tend to grow faster, thereby creating greater profits for the owners and investors. Second, whereas continuous improvement with the business can improve profitability and performance, it is insufficient in itself to keep the firm ahead of the competition. It is innovation that creates competitive advantage and new market opportunities, not just in terms of new products or services but in alternative ways of delivering or offering existing services that offer specific benefits to the customer, or new ways of managing customer relationships.*

Rezumat: *În această lucrare, este studiată importanța pe care o are inovația pentru afacerea de mici dimensiuni. În primul rând, deoarece firmele inovative au tendința de a crește mai repede, fapt care generează profit pentru proprietari și investitori. În al doilea rând o îmbunătățire continuă a activității afacerii poate îmbunătăți profitabilitatea și performanța, însă avantajul competitiv este obținut ca urmare a inovării. Astfel, se pot valorifica noi oportunități, nu neapărat prin produse sau servicii noi, ci prin oferirea unor beneficii specifice consumatorilor sau prin noi modalități de a manageriza relațiile cu clienții.*

Key words: *innovation, performance, opportunities*

Cuvinte cheie: *inovație, performanța, oportunități*

INTRODUCTION

Innovations don't just have involve large profit-generating changes to product and services, they can also consist of relatively small or minor changes to the way things are done, that will save time or money, or just simply improve efficiency.

MATERIALS AND METHOD

Economic growth depends on the accumulation of human and physical capital, the growth of the active labour force and on the efficiency with which they are used. The ability to obtain more output from given inputs of labour and capital corresponds to capital, improvements in the skills of the labour force, technological advances and new ways of organising these inputs. Historically, productivity growth has been the principal source of economic growth. It has made possible an expansion of output, not just without concomitant increases in inputs, but with important reductions in hours worked over the medium term. In doing so, it has made a sustained rise in real incomes possible.

Enterprises will be competitive when they can achieve sustainable growth in labour and total factor productivity that permit them to beat the costs per unit of output, and the non-cost characteristics, of other firms. This is so both on the domestic and on the international level. Such productivity growth may make it possible to finance a firm's expansion plans. But it also offers the possibility to a firm to sustain real wage increases. Similarly, the standard of living of a country rises when it achieves sustained productivity growth.

By strengthening the competitive position of innovative firms, productivity gains can not only reduce costs per unit of output, but also expand the market for their products. Citizens

benefit through better products at lower product prices and, in the medium term, through increased employment. Even if productivity gains are initially restricted to specific sectors of an economy, ultimately they are diffused beyond these sectors through changes in relative prices and associated increases in real incomes. In general, a country that realises strong and sustained productivity growth also sees its standards of living rising rapidly.

Productivity growth is determined by a variety of factors. It is possible to identify a number of reasons that explain the enterprises and SMEs increasing attention to developing their competence base:

- New technologies (especially ICTs) are introducing new competence and organisational requirements at the work place so, for instance, the enterprises with 10 or more employees identify the introduction of new technologies as the main factor generating training needs. The success of technological and organisational innovations within an enterprise depends to a large extent on the ability, skills and intellectual capacity of individuals at all levels to absorb change and interpret the rapidly changing environment. Therefore, the old 'Tayloristic' success formulas characterised by the division of labour between 'thinkers' and 'doers' are not applicable in the current knowledge-intensive economic environment. ICT is a core element of the knowledge society and an important complement to R&D activities. ICT can be seen both as innovation *per se* and, due to its general-purpose character, a vehicle for further innovations in various other sectors and fields. Unlike traditional types of capital investment, however, ICT represents general-purpose technology whose contribution to productivity and economic growth is greater than the direct effect of ICT producing sectors. ICT is also a central element in the innovation success of modern economies

- The increasing internationalisation of markets and the subsequent competitive pressures faced by SMEs, as well as the changing legal requirements SMEs permanently have to deal with, are resulting in added competence needs. It is therefore not surprising that SMEs face important difficulties in recruiting and/or retaining competent staff. This may cause an important part of the enterprises' key-competencies to be lost, this loss may have negative consequences on competitiveness, productivity and efficiency. Therefore, the preservation and development of competencies are critical issues to these enterprises.

- In some countries, SMEs seem to be particularly affected by the inability of the formal education system to match the enterprises current needs. This, in turn, implies an added need for SMEs to engage themselves in competence development activities.

- Management literature increasingly underlines that competitive advantages built on capabilities, knowledge and skills are often less visible to competitors and more difficult to imitate, providing therefore a base for a sustainable and robust advantage.

Productivity growth is determined by improvements in the quality of inter-firm interaction, by the accumulation of knowledge and by market-based choice of best solutions. Competitive firms are the carriers of change, providing the link between abstract ideas and innovation-driven, growth-generating market evolution. Within this process, technical progress and organisational change are inseparably entwined. Innovative firms prosper in broad knowledge pools from which they draw inputs and into which they in turn contribute new knowledge.

But how would we know if firms have managed to innovate, or to upgrade their activities? Why is it so important innovation to the business itself? First, because innovative firms tend to grow faster, thereby creating greater profits for the owners and investors. Second, whereas continuous improvement with the business can improve profitability and performance, it is insufficient in itself to keep the firm ahead of the competition. It is innovation that creates competitive advantage and new market opportunities, not just in terms of new products or

services but in alternative ways of delivering or offering existing services that offer specific benefits to the customer, or new ways of managing customer relationships.

When looking for new and innovative opportunities, it is not just a case of “what can we offer the customer that will give them something better than they have now?” the innovation should examine all aspects of the business operations including customer relationship management, customer retention, and of course listening to what the customer say that want.

The main objective is to create competitive advantage for the organisation, however, there is a tendency in some organizations just to focus on the parts of the organization that are regarded as important, e.g. the research and development function, because that is regarded as being the place that innovation should come from. This “one-dimensional” management shows a lack of understanding of innovation and failure to see the innovation process as being relevant to all parts of the organization, and both incremental and breakthrough changes alongside each other – continuous improvement that sustains the market share, coupled with the leaps in technological innovation that create new market opportunities and competitive advantage.

Innovations don't just have involve large profit-generating changes to product and services, they can also consist of relatively small or minor changes to the way things are done, that will save time or money, or just simply improve efficiency.

Also, if we can create right culture inside the business wherein innovation and creativity are highly valued, encouraged and rewarded and are seen and accepted as the norm in terms of behaviour and performance; then those barriers are removed and cease to be a problem.

The Innovation Network has produced “ten practical steps to keep your innovation system alive and well”:

1. “Remove fear from your organization. Innovation means doing something new, something that may fail. If people fear failing, they will not innovate”. Fear of failure is probably the biggest barrier to proposing or trying our new ideas or innovations in any organization, and removing the negative stigma normally attached to failure is a fundamental step towards creating an enterprising culture within a firm.

2. “Make innovation part of the performance review system for everyone. Ask them what they will create or improve in the coming year and track their progress”. When innovation is embedded in the employees personal objectives by negotiation and in agreement with them at the annual appraisal, they are more inclined to buy in to the idea and starts to become the norm in terms of the expectation of the firm. It is another stage in removing the fear or threat factor associated with something new or different.

3. “Document an innovation process and make sure everyone understands it as well as his or her role in it”. It is quite easy for new ideas or innovations to be implemented but subsequently to fall into disuse as people go back to the old ways of doing things. Documentation and appropriate instruction or trainings is one way to ensure that everyone knows what is expected and is able to deliver it.

4. "Build in enough looseness into the system for people to explore new possibilities and collaborate with others inside and outside the organisation." If staff is to be innovative they need to have the flexibility and the delegated authority to be able to research and try out new ideas and options. At times that may impinge on company processes and procedures (see below).

5. "Make sure that everyone understands the corporate strategy and that all innovation efforts are aligned with it. However, also create a process for handling the outlier ideas that don't fit the strategy but are too good to throw away." There will always be some ideas that do not complement current organisational strategy, or that are simply too far ahead or their time to be used at present. The important thing is to ensure that these ideas are not lost or wasted, and that they are properly recorded so that they can be resurrected in the future if needed.

6. "Teach people to scan the environment for new trends, technologies, and changes in customer mindsets." This is all about opportunity-spotting, and whilst it is not something that can be readily taught in the conventional sense, it is an attitude that can be constantly encouraged, especially if there is an incentive or reward structure for spotting such opportunities.

7. "Teach people the critical importance of diversity of thinking styles, experience, perspectives, and expertise. Expect diversity in all activities related to innovation." Part of the process of creating an innovative culture will involve providing staff with the skills and expertise for creative thought and thinking outside of the box, and time should be made available for such training. Not just on a one-off basis, but with periodic refreshment and reinforcement of the techniques.

8. "Good criteria can focus ideation; however, overly restrictive criteria can stifle ideation and perpetuate assumptions and mindsets from the past. Spend the time necessary upfront to develop market and success-related parameters that will take you into the future." A rather grandiose way of telling us, I think, to set criteria and targets for innovation that are focused on markets and customers for future growth and profit generation. Interestingly the reference to mindsets of the past could be applied to the issue of Standard Operating Procedures (SOPs), below.

9. "Innovation teams are different from 'regular' project teams. They need different tools and different mindsets. Provide enough training and coaching so that when people are working on an innovation team, they can be successful." Perhaps it is not so much the teams themselves that are different, but the enterprising culture in which they operate and the creative skills and techniques that they are encouraged to learn and use.

10. "Buy or develop an idea management system that captures ideas in a way that encourages people to build on and evaluate new possibilities." So many new ideas are lost because they are not captured, documented and subsequently evaluated. No matter how off-the-wall they may initially sound, the strangest ideas can still have elements of merit or value if linked with others or developed in the right way. Idea management is the process of capturing and logging all and every idea that comes up from any person or any part of the organisation, so that they can be considered and evaluated. It may take 500 new ideas to generate or synthesise one new innovation or invention which is fine for larger organisations with specialist research and development functions, although it will probably be too expensive and impractical for a very small firm; but in the latter case what is wrong with keeping a suggestions book where staff can put forward their ideas?

RESULTS AND DISCUSSION

The quote by Pablo Picasso at the start of this section "Every child is an artist, the

problem is how to remain an artist when he grows up" strikes a similar vein in that for the past 150 years the UK educational system has generally encouraged conformity as opposed to individuality and creativity. It has been interesting over the past 3 years, to see enterprise included as a compulsory curriculum activity in schools at all ages to re-create the interest and value of entrepreneurial activities, and that as a part of the enterprise programmes in schools, pupils are being encouraged to be innovative and creative in developing business ideas. For mature people in employment it is often a slow and hard process to develop or to regain creative skills, so the school classrooms are certainly the right place for it to start.

It is also an interesting enigma that modern management places such importance on the value of quality systems and good practice in customer care, and the need to gain Investors in People and ISO 9002 accreditations as a badge to advertise to the world that quality is highly valued; but at the same time the quality procedures that are carefully documented to formulate the standards against which the business will be evaluated, can themselves form a bureaucratic straightjacket that can limit innovation and change. This particular example of this is Standard Operating Procedures (SOPs) that are precisely formulated to ensure that activities are always performed in a uniform manner and to a consistent standard. There are some manufacturing firms that regard the SOP as being inviolate and unchangeable, and any potential innovation that might require the SOP to be re-written is dismissed out of hand. One particular medical devices company that comes to mind was highly innovative in other respects, and encouraged and rewarded staff well when they came up with innovations that saved the company's money, or improved productivity, but the revision of SOPs was not something the managers welcomed.

CONCLUSIONS

The gains of globalization have not been equally distributed, however. While the forces that continue to propel increasing economic openness testify to the extent of the gains it has generated, as well as the economic and political power of its beneficiaries, there have also been a large number of casualties in both the industrially advanced and developing economies. They include:

- ✓ Those who have been excluded from globalization;
- ✓ Those who have suffered from globalization; and
- ✓ Those who have gained, but remain poor.

What explains the difference between these two paths? A key capability is the capacity to innovate, and to ensure continuous improvement in product and process development. If this is the case, then the emphasis in production therefore needs to be placed on the ability to learn and this has implications not just for the productive sector itself, but also for the whole national system of innovation. But innovation in itself may not be sufficient. If the rate of innovation is lower than that of competitors, this may result in declining value added and market shares; in the extreme case it may also involve immiserizing growth. Thus innovation has to be placed in a relative context—how fast compared to competitors—and this is a process which can be referred to as one of upgrading.

It is often said that the biggest leaps forward in innovation and technological development, take place in times of turmoil, when necessity literally becomes the mother of invention. The classic case is that of the Second World War 1939-1945 which saw the advent of the atomic bomb and the jet engine, as two major examples of technological developments.

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