THE ROLE OF INNOVATION IN INCREASING BUSINESS QUALITY AND THE ADDED VALUE FOR THE CUSTOMER

MIHAELA GHICAJANU, GABRIEL DOLEA *

ABSTRACT: *In today's business environments (regional, national or global) it is increasingly difficult for a company to differentiate from others and to create its own competitive advantages. If we think about it, most of what a company produces or sells can be bought from another company through a single Internet search. In order to be able to succeed and meet the demands and competitiveness of the market, or laws and rules that are constantly changing, companies need to reinvent themselves, or present something new, to rethink the business model. Under these conditions, business innovation can be a key element for increasing business quality and adding value to the customer. This paper will address those types of innovation that are closely related to the business redesign process, namely: product innovation, process innovation, organizational innovation and open innovation. These types of innovation are also the most common in business management theory and practice and in innovation management.*

KEY WORDS: *management; economy; quality; innovation; business; entrepreneurship.*

JEL CLASSIFICATIONS: *M10, M11.*

1. INTRODUCTION

The effects of innovation, technological progress and information technology have a wider, stronger and faster impact on business environment, society and quality of life. Innovation from any field of activity, along with demographic factors, value systems, knowledge and ideology, is a factor capable of inducing or generating changes in the economy and society in general.

* *Assoc. Prof., Ph.D., University of Petroşani, Romania, ghicajanumihaela@yahoo.com*
Assoc. Prof., Ph.D., University of Petroşani, Romania, doleagabriel@yahoo.com

The term innovation is currently being used more and more often in business environments and with increasing ease. In order to understand the term innovation in business or innovation in entrepreneurial development, I will make some clarifications on the significance of innovation and economic creativity, as stated in the specialty literature.

2. INNOVATION ACCORDING TO J.B.SAY, J.SCHUMPETER AND P.DRUCKER

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From an economic point of view, at least four types of innovation are analyzed: product innovation, process innovation, market or commercial innovation, and organizational innovation. For example, F. Malerba (1997) defines *the invention* as "a new idea, a new scientific discovery or technological novelty (which has not yet been implemented and disseminated)", (Diaconu, 2011). While *the innovation* is described as the "*commercialization of an invention as a consequence of its integration into economic and social practice. Innovation is viewed as a result of a process that starts with the genesis of an idea and continues with its materialization.* " (Marian, 2010).

Joseph Schumpeter, in his paper in 1942, "*Capitalism, Socialism and Democracy*", gave the best definition of innovation, technological progress and he considered that: *firms with a strong market position represent the engine of technological progress*.. In the context enounced by Shumpeter, we can exemplify companies such as IBM, Microsoft, Intel, Apple, Google, Amazon, Samsung, CISCO, with dominant positions in their sphere of activity. These are also the companies that have made the greatest contributions to innovation and progress.

The definition given by American economist Joseph Schumpeter in his papers asserts that innovation means to be able to do something other than how much it has been done or to replace the old product with a new one with the same destination or use, but with superior functions. Thus, J. Schumpeter regards innovation as a function of entrepreneurial activity in which "new combinations" of existing resources take place. The definition given by Schumpeter continues to be relevant in associating "new combinations" of factors with the production of new products and services, the introduction of new processes of production, marketing and organizing the business.

Some companies, known for their concerns about innovation and continued creativity, have proposed other definitions, something more pragmatic. After 3M Company (3M Company - Innovative Technology for a changing world), which is a multinational company in the U.S. known as Minnesota Mining and Manufacturing Company until 2002, believes that "*innovation is the practical application of a creative idea that is materializing in increasing turnover or reducing costs.*"

Business innovation is treated as a social term rather than a technical term, defined in terms of demand and changing the value and the consumer's satisfaction of

the offered possibilities. In this sense, one can say that the greatest invention of the 20th century is the computer, which influenced in one way or another the society and the life of the people. If, at the beginning, there were a limited number of computer manufacturers and suppliers (for example: ENIAC - Electronic Numerical Integrator And Computer, IBM International Business Machines Corporation), due to the high market demand and flexibility of entry barriers, other manufacturers and suppliers appeared in this IT segment. Thus, due to the high potential to make work more efficient, thus increased customer service and satisfaction, the computer has been widely introduced in all areas of productive activity, ranging from office work to work in the production halls. The same situation was observed in the case of mobile telephony, when in the second half of the 20th century there were the largest and most important innovations in mobile phones, used at the time in the security field, such as the army and the police.

Table 1. Innovation Principles by Drucker P.

Imperatives (what should be done)	Prohibitions (not to be done)	Conditions
1. Intentional, systematic innovation is achieved by analyzing real possibilities. 2. Innovation must be conceptual and perceptual. In the processes of innovation we must search, ask, listen and see. It is necessary to use both vertical and lateral thinking. 3. In order to be effective, an innovation must be simple and focus on something specific, usually on one thing, otherwise it leads to confusions. 4. Effective innovations are insignificant at first, not great. 5. A successful innovation is aimed at leadership. It does not mean that it ultimately turns into a big business deal, it just needs to target its leadership position, to impose itself on the market.	1. Innovations do not have to be very intelligent. The result of innovations must be used by normal people, and even by people that are not too smart. 2. Do not try too many things at once. Innovations that deviate from basic concepts tend to become confusing and remain at the stage of just a creative idea. 3. Do not innovate for the future. Innovation is done for the present, that is, its result can be used by people today.	1. Innovation means work, knowledge, perseverance, assurance, sustained activity and a special commitment. 2. Innovation is based on the innovator's qualities. It has to be significant for the innovator, to count, to dedicate himself and persevere in the road to success. 3. Innovation must produce effects in the economy and society. That is, to make a real change.

The theory of innovation is still incomplete, but the practice of innovation can be explained more in depth. From "A spark of genius", "Brilliant Idea" to "Systemic Innovation", there are practical steps that the entrepreneur exploits. "(Marian, 2007) .

On another note, in his book "The Principles of Innovation", the paragraph "Innovation as a Practice," Peter Drucker said that the "sparks of genius" are very rare and unfortunately most (if any) remain at this stage and are not transformed into innovation.

In this context, *creativity* is closely linked to innovation. Creative ideas can be supported by managers and entrepreneurs, can be stimulated by different techniques and specific methods. The most relevant creative ideas can be translated into something concrete, in practice through that act of innovation and design. He also argues that the greatest social changes have been driven by innovation and the development of certain technologies. Drucker (1999) links the application of the knowledge of those times, different aspects of reality and the resulting social effects: the knowledge applied to the *tools*: the industrial revolution (1750-1850); Knowledge of Work: Productivity Revolution (1880-1945); Knowledge applied to *information*: the managerial revolution (1960-present).

Creative ideas and their implementation through innovation and design can not be considered as successful unless they are recognized on the market by customers or consumers, unless they are accepted, used, and for which there is demand. In other words, creative ideas are not effectively in practice unless they are transformed by innovation into something, a product and / or a service that materializes on the market, to succeed in the market, to produce profit, to bring added value for the client, to produce benefits for the economy and society.

Drucker argues in detail the imperatives (what should be done), the prohibitions (not to be done) and the conditions for an innovation to be successful.

2. TYPES OF BUSINESS INNOVATION: product innovation, process innovation, organizational innovation, open innovation

Different classifications of innovation are attributed to economic and technical practice. In this subpoint, I will only specify those types of innovation that are closely related to the business redesign process, namely: product innovation, process innovation, organizational innovation and open innovation. These types of innovation are also the most common in the theory and practice of management innovation.

Product innovation results in the marketing of a new product. This product is not strictly related to the material part, it can also embody the form of a service. In this respect, product innovation has been the most common innovation in recent years, and the market is virtually invaded by this type of innovation, especially automotive and IT products. According to the opinions expressed in the materials dealing with innovation, these include the following actions of product innovation (Ranea & Filipoiu, 2011) (Table 2).

Process innovation results in the introduction of a new manufacturing technology that can be in the form of a machine, equipment, or complete manufacturing line. Process innovation also accelerates due to technical progress, research-development progress, and innovation in various fields: aeronautics, industrial robotics, medicine, mining, agriculture, automotive, chemical industry, etc.

Table 2. Including and excluding actions of product innovation

Product innovation includes	Product innovation excludes
• new products / goods / services or significant improvements (of the core or essential components of their functionality / structure) placed on the market	• minor improvements; current updates or adaptations; • minor changes that do not alter the functional / structural components of a good / product / service

Table 3. Including and excluding actions of process innovation

Process innovation includes	Process innovation excludes
• new manufacturing methods; new lines or technological equipment; • major changes in the manufacturing method; major changes in key components of the manufacturing line / equipment leading to significant increases in terms of: quality, efficiency, speed;	• minor improvements; updates or current adaptations of the manufacturing methods; minor improvements of the technological equipment (without affecting the basic functional and technical components)

Lately, innovation is more and more often associated with terms from management and organization, in the sense of being able to bring new things in terms of the leadership of an organization, how it is organized and how it works based on new, innovative principles .

Open innovation

Also, another relatively newly-introduced terms is ***open innovation***. *Open innovation is a relatively new concept, pioneering in innovation management and business management,* and was first introduced in 2002 by Henry Chesbrough and his group at the Berkeley Business School. Open Innovation or Innovative Network "can be understood as the innovation activity through collaboration with other firms (the supply chain) within a pre-established contractual framework. *(Chesbrough, 2002).*

Within the open innovation, the innovative company must have the ability to combine internal resources with the technological and business information existing in its external environment from: customers, suppliers, literature, patents, research centers and universities, to maximize value to the customer.

After Chesbrough, open innovation was also analyzed by Herstad and Naas (2007); Mariussen (2007); Lazonick (2007), OECD (2008). Through open innovation, a company sets its strategy by integrating the latest external knowledge: from research, development, production to external knowledge of the supply and marketing chain. That is, all external knowledge from partners, collaborators and even competitors of the business environment are used in the formulation of strategic objectives, resulting in a so-called "*collective strategy*". The vision, the objectives and the directions of action (why do what we do, what we have to do, how we do things or how we implement) them contain a pool of knowledge, both internal and external. The results of implementing such a strategy are stronger both in the company's internal innovation

and in the network created by this type of collaboration or business model, called open innovation or the innovative network.

In other words, an open innovation company takes advantage of the opportunities and ideas of its micro-business to bring competitive advantage to its own business model or to develop a new business model with competitive advantages and superior added value.

The new approach to open innovation or the innovative network is somewhat similar to the *cluster* term. Michael Porter (Porter M.,) defined clusters as "*geographical concentrations of companies and institutions that are interconnected in certain areas of activity*." These clusters are formed by interconnected industries, as well as others, they can extend both downstream to customers and laterally to indirect competition (complementary products). In a cluster, partners can be found on both competitive and collaborative positions.

Peter Drucker also indirectly identified this business model of open innovation in his studies when he treated entrepreneurship and added value. Through open innovation, companies are able to achieve both internal benefits (leading to increases in net sales gains, reduction of research&development costs, etc.) as well as external, by creating higher added value for the client. In an open innovation project, all the business partners involved are winning. Studies conducted by the Community Innovation Survey (CIS) highlight the fact that open innovation has a strong impact on company performance and customer added value.

In the literature it is emphasized that open innovation should not be confused and treated simplistically as a corporate collaboration, corporate alliance or a simple patent acquisition. Open innovation is a much more complex process through which an innovative network is created. This network is made up of companies that contribute to this process by developing models or good open innovation practices.

Nowadays, through this open innovation project or program, it is intended that the business partners involved create and develop products / services that constantly take into account the needs of consumers in accordance with the terms of sustainability and environmental protection. That is, to offer new, better, cheaper products and to reach customers faster. These are, in fact, the fundamental objectives of open innovation.

3. FACTORS SUPPORTING INNOVATION AND ENTREPRENEURIAL DEVELOPMENT

According to a study conducted by Innovation First International Patent Intelligence on 3,000 executive directors from 25 countries and five study indicators, the factors determining an innovation-friendly environment have been identified. The five study indicators were:

- *the* field related to the political / legislative factors - business regulations and laws, taxation;
- how governments support and promote business innovation;
- the internal way and the framework created by firms to support the new and change;
- the degree of accessibility to external financing sources;
- the quality of vocational training and education in each country.

Also, according to studies conducted by the European Commission, including the "*ENTREPRENEURSHIP 2020 ACTION PLAN*, *Reigning the entrepreneurship spirit in Europe, Burssel, 2013 "*(ur-lex.europa.eu), the factors that create conditions advantageous to entrepreneurship are identified, and especially among young people. Among the most important factors there are:

- *Investing in entrepreneurial education, both in specialized schools and within companies.* This aspect specifically refers to the development of an entrepreneurial education and training platform (in schools and specialized institutions) that includes knowledge, studies and analysis, entrepreneurial practice methodologies from different developed countries, etc.;
- *Creating a favorable environment for entrepreneurs to bloom and grow*. This is reflected in the degree of accessibility to funding, providing support both at the beginning of the road and in developing a business, understanding and launching new businesses in the digital age, developing best practice guides in business to provide know-how transfer in business and eliminate potential barriers between countries; Providing a second chance to those who have failed (insolvency, bankruptcy in honest terms) by clearly identifying opportunities for new business;
- *Clear and simple rules and regulations*. Simplification of funding regulations, financial and fiscal reporting, business transfer, internationalization, etc.;
- *New perceptions about entrepreneurship models for certain categories such as*: for women, unemployed people, elderly people, emigrants.

The most relevant factors of influence in support of innovation and implicitly in entrepreneurial development that have come from most of the studies carried out, either by specialized firms or by the European Commission, are:

- policies to encourage innovation and entrepreneurial development;
- support from government and politicians;
- educating and developing specialists - developing entrepreneurship by promoting the principles of open innovation;
- the introduction of efficient solutions to reduce bureaucracy in public institutions.

Contrary to expectations, bureaucracy in public institutions or in undertaking steps to obtain external financing on advantageous terms (structural or governmental) is becoming more and more pressing and complicated year after year;

The conclusions of a survey among CEOs of some companies in the European Commission report of 2017 are that the current business environment in Europe, although it has positive aspects of business opportunities, development, etc., still has many deficiencies. These deficiencies or sometimes complications are caused precisely

by the pace of changes, and the fact that authorities and firms sometimes fail to align themselves perfectly with these changes. There are many deficiencies caused by misunderstandings, the fact that there is no prompt action on the subject where the change takes place or where the change is needed: in the legislative, organizational and functional, managerial, economic, human, technical domains, etc.

4. CONCLUSIONS

In successfully completing a redesign process and more, it is necessary to encourage and promote entrepreneurship, innovation and creativity in business. These key success elements in business are all the more common, being driven by changes in the global business environment. The global business environment is subject to accelerated changes due to the development of technologies at a dizzying pace and due to the influence of competition coming from the market. The general trend of business models is innovation. That is why the pace of innovation has become a challenge for local economies, and innovation has become a strategic priority for companies. In order to develop entrepreneurship at local level, a series of measures and factors are needed to support and promote innovation. *Innovation, as an economic process*, has several roles:

- sets long-term goals;
- aims to renew and expand the range of products and services and outlets;
- introduces new methods of production, supply and distribution.
- imposes changes in management, work organization, working conditions and skill levels;
- leads to the renewal of industrial structures and the emergence of new fields of economic activity.

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