INNOVATION MANAGEMENT: THE SOURCE OF CONTINUOUS IMPROVEMENT OF COMPETITIVE ADVANTAGE AND ORGANIZATION'S PERFORMANCE

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Abstract: *Competitive advantage is the most important part of the strategy statement. Logically it describes why the company will succeed, how the company is different from its competitors and what makes the company better than its competitors. The result of the competitive advantage is found in the performance of the organization and to the greatest extent in the realized profit. But, in order to create and maintain competitive advantage, companies continuously innovate technologies, products and services, procedures and systems. Innovation is therefore the main source of continuous improvement of the competitive advantage and the overall performance of the organizations. The paper offers a conceptual model of the product innovation process and considers that continuous improvement involves three important directions that derive from the strategy of organizations, i.e. innovation, competitive advantage and performance.*

Keywords: strategy, innovation management, competitive advantage, organization's performance, continuous improvement

JEL Classification: M19; O36; O39

1. Introduction

The strategy of any organization includes the vision, mission, strategic goals and objectives, which are then transposed into policies, annual action

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plans, systems and procedures. These annual plans include strategic resources and capabilities. Based on them, annual and medium-term budgets are foreseen, which aim at highlighting the performance of the organizations (the effectiveness of the strategy and the overall profitability). However, the companies have to meet the investors' expectations by earning enough revenue to cover the cost of capital (Doval, 2018).

The aim of a strategic product planning process is to realize the best and most innovative products in a way that aligns with the vision and overall strategy of the company. The outputs from this yearly process become the inputs for a system that then manages products to completion and launches them into the marketplace (Carter, 2019).

No strategy is designed without taking into account the external environmental factors and especially the competition on the market. Without continuous scanning of the external environment, companies cannot build and ensure their competitive advantage. Also, organizations are developing and conquering new markets by offering innovative products and services.

When it comes to learning how to create a competitive advantage, the options are infinite. That is why it is important to take a strategic, purposeful, and well-researched approach (Gaid, 2019). However, innovation initiatives in technologies, products and services represent important precursors in ensuring competitive advantage (Nonaka, 2017).

Moreover, the innovation management is part of the organization's management and creates the premises for building a sustainable competitive advantage. The principle applied to innovation is: 10 percent innovation and 90 percent innovation management. Unfortunately, the reverse proportion holds true in many organizations (Kaplan, 1998).

In other ideas, organizations perform only if they apply the principle of continuous improvement in all their fields of activity. Performance represents a state of competitiveness, attained through a level of effectiveness and productivity that ensures its durable presence on the market, considering the multiform and complex interaction between numerous factors (Dragomir & Panzaru, 2014).

In this broad context, the paper aims to briefly highlight the main aspects that define the competitive advantage and the innovation and to provide a conceptual model regarding the innovation management process of a new product. We also consider that continuous improvement involves three important directions that need to stay in the attention of managers to be included in the strategy: innovation, competitive advantage and organization performance.

The methodology used in the research is based on the research of the references in the field, the direct observation and the own judgment.

2. Competitive advantage as the organization's strategy scope

Creating and maintaining competitive advantage is the strategic goal of each company, as it ensures market share, sales and image.

Michael Porter proposed the theory of competitive advantage in 1985. He defined the two ways in which an organization can achieve competitive advantage over its rivals: cost advantage and differentiation advantage. Cost advantage is when a business provides the same products and services as its competitors, albeit at a lesser cost. Differentiation advantage is when a business provides better products and services as its competitors. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage.

Scholars offer different perspectives to understand the competitive advantage, of which we exemplify:

The competitive advantage is defined as the ability of the company to perform better than its competitors in terms of the basic purpose of existence: profitability (Grant, 1998).

Competitive advantage is, also, defined as the strategic advantage one business entity has over its rival entities within its competitive industry. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Wang, 2014). These attributes can include access to natural resources, such as high-grade ores or inexpensive power or access to highly trained and skilled personnel human resources. New technologies, such as robotics and information technology, are either to be included as a part of the product or to assist making it. Information technology has become such a prominent part of the modern business world that it can also contribute to competitive advantage by outperforming competitors with regard to Internet presence (OER Services, 2020).

Competitive advantage is a set of qualities that give businesses leverage over their competition. It allows businesses to offer their target market a product or service with higher value than industry competitors. In the long term, this boosts the business' position in their industry and drives a greater number of sales than competitors (White, 2019).

The competitive advantage is created and then maintained through specific strategies. In order for an organization to be able to create and maintain its competitive advantage, it must have the ability of its management to cope with and successfully face changes in the environment.

The main ways to face the environmental challenges are:

- anticipating change through permanent scanning of the environment and collecting information;
- flexible organizational structure;
- innovation with its attributes: imagination, intuition and creativity in conception-design, production, sales, finance, etc.;
- development of strategic resources and capabilities.

Obtaining a competitive advantage does not have to be a formal business objective. Having a competitive advantage means that a company will have the resources and capabilities to pursue its goals. When firms outperform their competitors, they can fund research and development to improve their products or services; they can spend more on advertising and promotions to attract customers; they can make charitable donations to improve community relations; and they can offer greater profits to their owners. In short, the competitive advantage is the means of achieving the strategic objectives.

In the age of information technology, the competitive advantage becomes an evolutionary advantage, as organizations keep up with the advanced technology and rely on innovative and absolutely competent staff, offering unique products and services (Hamel and Breen, 2010).

3. Innovation for performance

Every innovative product begins as a concept in the mind of someone or some group of people. These concepts are the seeds of your company's future growth (Carter, 2019).

Creating innovation is perceived as an important means of establishing and maintaining competitive advantage, as well as a method of initiating corporate renewal (Russell, 1999).

The innovation starts with an idea of one or more people, which is transformed by an iterative and chaotic process, by many returns and bottlenecks and becomes a prototype subjected to several technical tests, then through marketing activities to bring the customers life (Slimane, 2009). Another definition of innovation is "the refinement and practical development of an original invention in a usable technique or product or, a process in which creativity is applied on each side of an organization's value chain, from beginning to end, to develop new and better ways of creating value for customers" (Maital & Seshadri, 2007).

Innovation is associated with risk and uncertainty, which is why the great economist Schumpeter defined innovation as a "creative chaos". In any case, corporations create a competitive advantage through innovation, including by exploring new strategies in their strategies. Innovation increases when the person has calm conditions to be able to think freely and to focus on the idea. "One of the paradoxes of innovation is the clash between the need for free and unlimited creativity, along with the need for concentrated systematic discipline" (Maital and Seshadri, 2007).

Recent years have seen the unprecedented progression of digital advances, with artificial intelligence and virtual reality making the stuff of science fiction movies not quite as unrealistic as previously thought. Combining this evidence with a new generation of employees and consumers harbouring fresh expectations it is easy to understand why innovation is enjoying a renewed sense of necessity and urgency.

Innovation can seem like a minefield and it can be difficult to know where to begin when there is so much to consider (Hunnam, 2020).

There are three key reasons to innovate: energize your people, build growth and profit and survive (Maital & Seshadri, 2007):

- Energize your existing people and attract great new ones: Successful innovations are often a portfolio of new ideas, with some of them focussed on the product and some focused on the value chain supporting the product innovation;
- Build growth and profit (return on equity, total return to investors and profit margin): innovative products that achieve market success generally command higher prices and higher profit margin than competing products. Innovation comes from empowered individuals and teams who break rules to exploit their creativity. In order to achieve these results, organizations must produce, market, distribute, sell and provide services.

- Survive: Innovation is an adaptive competence that is necessary for survival in global markets. Those organizations that lack innovation will simply not last in the long run (their existence is in danger).

Satell (2018) brings to attention the 70-20-10 rule for organizations to face challenges and solve problems, respectively:

- 70% – Sustaining innovation: Sustaining innovations are improvements to existing products and services that align well with the organization's current strategy.
- 20% – Exploring adjacencies: The organizations 'management want to be exploring adjacent markets and capabilities. In this way, the companies are able to leverage the existing resources to create something significant.
- 10% – Building a new paradigm: creating something fundamentally new is highly speculative, so that the management want to limit the investment to what can be sustained over a long period of time without incurring material risk to the organization.

Establishing a quantitative innovation aspiration is not enough, however. The target value needs to be apportioned to relevant business "owners" and cascaded down to their organizations in the form of performance targets and timelines. Anything less risks encouraging inaction or the belief that innovation is someone else's job (de Jong et al., 2015).

Philipson (2020) discuses ten sources of innovation and the consequences for knowledge production and transfer. Ruoslahti (2020) demonstrates that the elements of complexity can be used to gain insight into innovation projects; the results show that not all elements of complexity are equally important in this context and that they appear in a certain order. Moreover, economic innovation performance positively correlates with sustainability innovation performance. This implies that economic and sustainability innovation goals can be reached simultaneously (Rautel et al., 2019).

Moretti and Biancardi (2020) bring the concept of open innovation, launched in 2003 and then developed by dozens of authors (Chesbrough, 2003; Wallin & Von Krogh, 2010 et al.). The concept has 3 dimensions: "*outside-in*", "*inside-out*" and "*coupled*". In particular, the outside-in (inbound) process aims at enriching the company knowledge capital by internalizing externally developed technologies. Firms search for valuable sources of knowledge in their environment, leveraging on potential sources of ideas arising from other players, i.e. suppliers, customers, competitors or universities. Drivers of acquisition of external assets include lower cost of development, lower risks and faster time-to-market. The open innovation literature is yet to find consensus in defining the determinants of openness, as well as in sorting its effect on performance (Moretti & Biancardi, 2020).

In all organizations innovation should not only derive from the strategy of the organization but the strategy itself should be based on a culture of innovation.

Creating a culture of innovation is important for gaining any kind of competitive advantage, particularly when utilizing a differentiation strategy (White, 2019).

Innovation remains to be the widely recognized leverage in the quest for future growth. Companies employ different combinations of competencies depending on the innovation strategy they pursue in new product development, namely incremental innovation strategy, radical innovation strategy and trend-setting strategy (Lang, 2011).

4. The process of a product innovation

Innovation manifests itself in all areas of activity of an organization, so that in the value chain there are different aspects of innovation. These come from the implementation of the concept of open innovation, presented above. Whether the innovation is carried out within the organization or is purchased from outside, more and more materials, products, technologies or new systems and procedures appear, which hasten the market competition.

In the whole complexity of innovation, the essence of innovation is the creation of new products because the products are the ones that create value for customers and for companies.

The product innovation process comprises four stages: basic exploration, processing and creation, launch in the value chain and supporting innovation (figure 1).

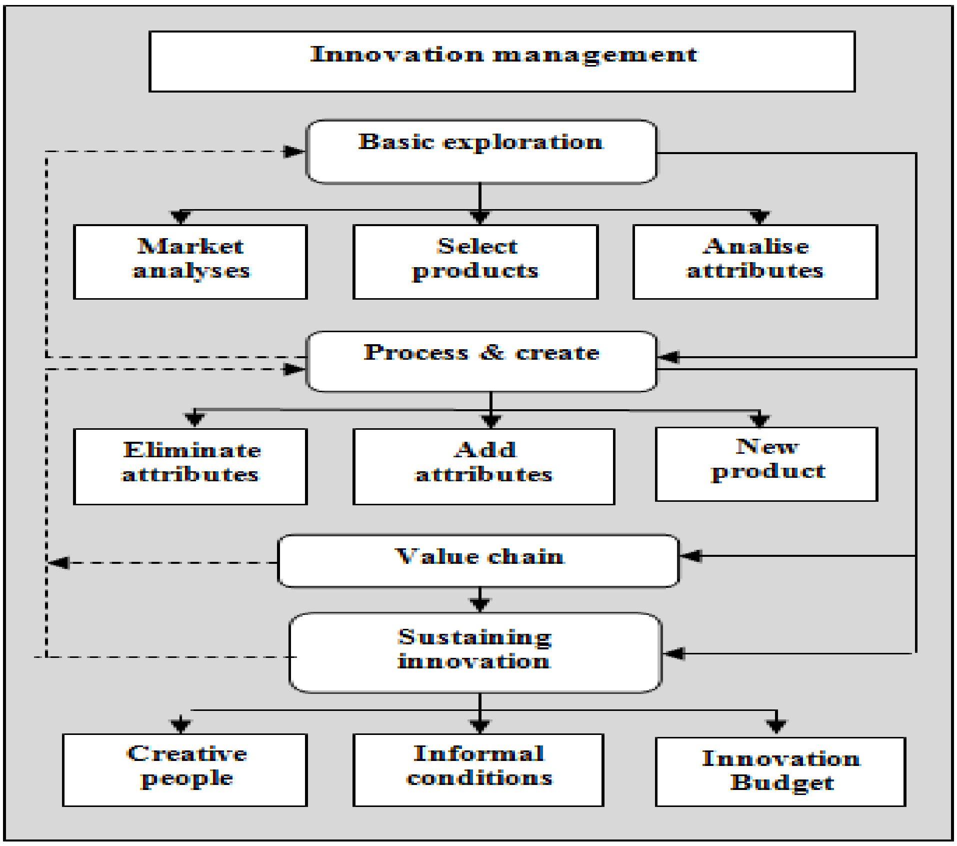

Figure 1. The process of a product innovation management

Basic exploration

The process of product innovation begins by analysing the market and the competitors with a high market share. In particular, the products that have reached maturity and which at a certain time enter the phase of decline are chosen. The marketers make a list of features and attributes for each product and specialists analyse each product from the perspective of strong and weak attributes. Then, the products with several weaknesses are selected.

Processing and creation

The innovators are processing the data collected regarding the selected products by different methods. To these data, some new attributes are added or certain attributes that are replaced with new ones are eliminated. The result is several new product projects, from which the one that promises the most success is selected. Only this new product with superior features and new attributes will be launched in production.

Launching in the value chain

However, the innovation is only successful when projects start to be launched. Launching a new product in production involves changes throughout the value chain: new or adapted technology to the new product, supply of necessary materials, training of employees, marketing, sales and service (if necessary).

Supporting innovation

The innovation process must be sustained in the long term. Individuals or teams with creative skills are chosen. They are created an informal environment, specific to the creators and they are provided with a budget for innovation. The budget should be neither too big nor too small, but to fit in the possibilities of the company, without affecting the profit.

5. Continuous improvement

We consider that continuous improvement within a company takes place in three main directions: innovation, competitive advantage and organizational performance.

Once the new product has been launched on the market, it is expected that the three directions of continuous improvement will work efficiently in an ongoing cycle (figure 2).

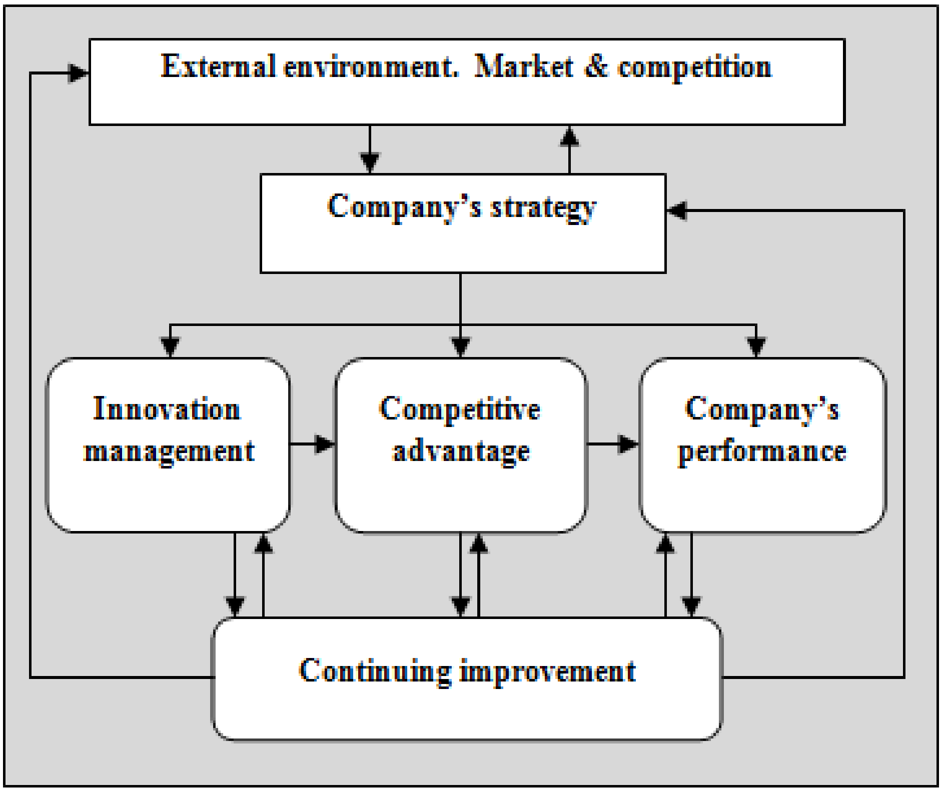

Figure 2. Continuous improvement directions

A company focused on continuous improvement will ensure its longevity and will satisfy the requirements of its customers. The company's strategy will need to include among its strategic objectives the innovation management, as well. This side of management will have to focus on: creating specific conditions (pleasant environment, quiet for creation, flexible work schedule, etc.) and on supporting and motivating creative individuals or innovation teams.

The innovative products will bring to the company the competitive advantage necessary to increase the market share and sales and, in general, the performance increase (return on investment, return on turnover and profit margin).

1. Conclusions

Managers' understanding of the importance of the competitive advantage represents a first step in designing effective strategies to ensure the viability of organizations. In order to ensure the competitive advantage, the management of the organization must concern itself with the analysis of the environmental factors and especially with the continuous analysis of the way in which the competition acts. The specialized literature offers a multitude of opinions regarding the ways of creating, maintaining and increasing the competitive advantage.

Innovation is the most efficient way to increase the competitive advantage. Including innovation management in the organization's strategy is the lever that leads to the growth of long-term organizations. By innovating, organizations create new strategic capabilities that lead to performance.

The conceptual model regarding the innovation process of the new products offered in the paper, as well as the consideration of the three directions of continuous improvement, i.e. innovation, competitive advantage and performance are useful tools for managers in any organization. These models can be improved by further research.

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