

THE EFFICIENCY OF THE INNOVATION FACTORS ON COMPETITIVE ADVANTAGE

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ABSTRACT: In the current rapidly changing and highly competitive business arena, businesses are forced to transform to continue surviving and growing. Growth could arise from the rising market share or through the introduction of new products, services and processes with various strategies that engage these changes. The general objective of this research is to improve the awareness of the effect that innovation has on developing competitive advantage among organizations in order to achieve superior performance. The research aims to investigate various possible innovation levels in order to identify which one contributes more to the competitive advantage of SMEs' competitive advantage. The background of the study will be presented followed the examination of SMEs in Iran and the significance of innovation in this sector. In this research the population will be Iranian SMEs. This research is based on 126 Iranian SMEs as participants. SPSS will be used for analysis.

Keywords: Innovation, Levels of Innovation, Innovation and Competitive Advantages in SMEs, Competitive Advantages

1. INTRODUCTION

In the current rapidly changing and highly competitive business arena, businesses are forced to transform to continue surviving and growing. Growth could arise from the rising market share or through the introduction of new products, services and processes with various strategies that engage these changes. It is common knowledge that change is a significant catalyst for development and innovation is the main driver towards change. Competitive advantage allows organizations to stand up their rivals in this competitive business setting. Capabilities of an organization drive the success of gaining a competitive advantage and it should be a continuous effort that is updated according to emerging conditions. It is an accepted belief that being innovative and standing out from the crowd is an important role in this instant. According to [1], strong competitive organizations must be armed with the capability to offer customers the compounded competitive advantages based on cost as well as differentiation based on their innovative products. The management of innovation is a significant component of economic development and sustainability among organizations. Utilizing resources efficiently, addressing the changing needs of the market as well as making sure of possessing a competitive advantage can only be performed by establishing strategies that are compatible to an organization's structure, culture and logic by developing innovative skills and effectively managing the innovation processes.

2. LITERATURE REVIEW

2.1. Innovation

[2] Believe that innovation is not only introducing new technological inventions but also implementing any new combination of resources that contribute to the new manufacturing set is considered as innovation. [3] suggest that innovation helps an organization have a more effective and efficient performance, while [4] explain that innovation activities intend to achieve higher levels of performance and it is believed that they lead to economic gradual growth and business prosperity. Some consider innovation as continuous enhancement, which appear like activities to solve the problems [5]. [6] Believes that innovation consists on making practical use of opportunities. In other words, innovation is turning opportunities into new businesses [7]. [8] Believes that total risk of a country and creative innovation has greater economic impact on per capita income level rather than other variables like national saving rate and dependence on trade. Some scholars explain that innovation is a process which includes both improving the process and make a feasible use out of it [1]. There is another broader concept for innovation offered by [9] as they consider any new technology or new process as an innovation. The notion of innovation is clarified by many scholars by different approaches: as a course of action or as a result [10]. The positions which firms take regarding competition, seeking new market or retaining the share of market they have are affected by type of innovation [11]. [12], explain that firms are obliged to innovate regardless of their willingness. Introducing or implementing innovation is full of difficulties and offer amounts of risks to the company [13].

2.2. Levels of Innovation

[14] Compounds the different levels of innovation consist of: product technology, market, processes, structure, resources and defines subcategories for each level of innovation except at the market level.

2.2.1. Processes

Procurement: The act of obtaining or buying goods and services wherein the process involves preparing and processing a particular demand as well as the end receipt and approval of payment. **Production:** The processes and methods used to transform tangible input and intangible input into goods or services. **Sales:** Sales is activity related to selling or the amount of sold goods or services in a given time period.

2.2.2. Resources: A stock or supply of money, materials, staff and other assets that can be drawn on by a person or organization in order to function effectively .

Knowledge: Facts, information and skills acquired by a person through experience or education: the theoretical or practical understanding of a subject . **Labor:** Labor is a primary factor of production. The size of a nation's labor force is determined by the size of its adult population and the extent to which the adults are either working or are prepared to offer their labor for wages.

2.3. Innovation and Competitive Advantages in SMEs

There are certain elements that have been recognized by different researchers as determinants of innovation that help firms to innovate more. [15] Explain that firm size is one of those determinants. [16] Emphasize on strategy and social capital. [17] Identify research and development (R&D) as a determinant. It is largely approved that innovation has a significant role in identifying competitiveness between enterprises operating in the construction industry [18]. [18] explain that enterprise's inclination for creativity will affect the ability to offer more inventive design solutions and the firms that enhance their existing innovation capacity; it will make their business performance

more efficient. [19] Consider innovation, continuous improvement and change as three key elements of global competitiveness. [20] Suggests that product and process innovation may have significant role in acquiring competitive advantage in global market. Innovation is considered as one of the competitive advantage sources. In the business environment of swift changing in terms of technology and market and customer demands and also globalization, it is believed that firms have to innovate to thrive and withstand [21]. [22] Describe that in competitive environment, it is essential for SMEs to generate an innovation intention to enable them to take advantage of opportunities to attain competitive advantages and obtain market share. Since firms in high-tech industry have to cope with market alteration, usually they introduce more new product and services rather than firms in low-tech industry [23].

2.4. Competitive Advantages

[24] Also considers competitive advantage as the goal of strategy and believes that competitive advantage will lead to higher performance. [25] Describe competitive advantage as the unique position that a company poses in compare with other competitors. [26] Suggests that there should be at least two performers in the competitive process who know that their actions have some impact on each other. And believe that industry comprises a group of performers who are active in a certain competitive process, presenting similar products which are compared to examine the value each carries. In the environment that research and development costs are rising, products life cycle tend to be shorter, competition more intense and there is market segmentation and globalised economy, agility to the market is considered as competitive advantage [27] Resources and superior skills are the origin of competitive advantage and competitive advantages lead to superior performance, which is assessed in terms of profit and market share [28]. Being quick enough to the enter market, firms could take advantages of first-mover position. The swift return of cash flows on innovation activities through a shorter period of time, make firms capable of regularly and continuously innovate and fast growth in the market at the same time [29]. It is believed that shorter commercialization and break-even periods from one side, and productivity and improvement from the other side are interrelated [25].

3. RESEARCH PROBLEM

The growth of the economy that is achieved through competitive advantage is increased with production and employment, which in turn causes economic growth and improvements in social wellbeing. After achieving sustainable growth, organizations are forced to further innovate and improve their capabilities in meeting new challenges with new processes, products, and services. Due to the apparent gaps in prior research, the present research attempts to examine whether innovation in Processes and Resources has any effect on competitive advantage among SMEs in Iran. Therefore the main research problem for this study is that the importance of Innovation in Processes and Resources have been known by organizations, the effect of innovation in Processes and Resources on Competitive Advantage in SME companies in Iran is still not well established.

4. RESEARCH QUESTIONS

1. What is the relationship between process and Competitive Advantage?
2. What is the relationship between Resources and Competitive Advantage?

5. RESEARCH FRAMEWORK

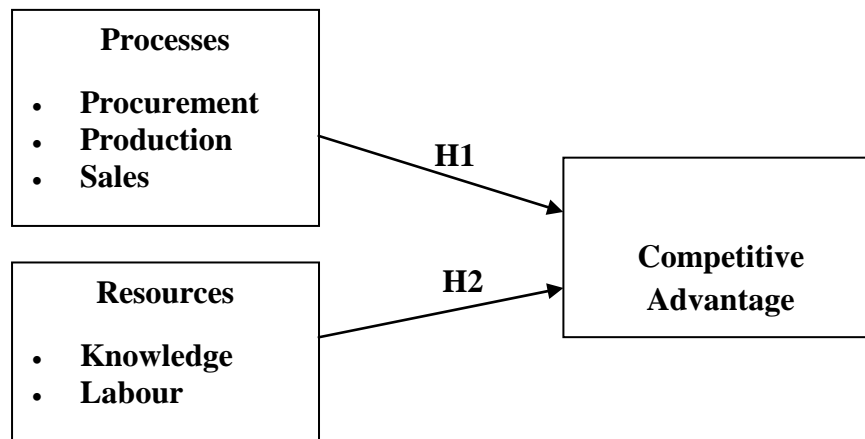


Figure 1: Conceptual Framework

6. RESEARCH HYPOTHESIS

H1. Innovation in process has a significant relationship with competitive advantage.

H2. Innovation in Resources has a significant relationship with competitive advantage.

7. RESEARCH METHODOLOGY

The population in this study will be Iranian SMEs, in which the sample will be drawn from. The respondents will be select from different industries and will select randomly. This research is based on 126 Iranian SMEs as participants. It is hoped that this sample size is adequate to enable the researcher to draw generalized results to the whole population within a statistical level of confidence. The selected sampling design in this survey will be Unrestricted Probability Sampling (Simple Random Sampling). Simple random sampling is easy and simple to apply and is also economic. The sample will be collect from Iranian SMEs companies, which have less than 250 employees and will own by the private sector and have an office or branch in Tehran. Where there are difficulties to self-administration the questionnaires, they will send to respondents via e-mail. In this method there is some limitation in communication and at certain times, the respondents will not well-guided to answer the questions. A number of questionnaires will e-mailed to companies from the Industrial Managers Convention head office.

8. CONCLUSION AND FURTHER RESEARCH

Iran's economy is largely relied on natural resources but no other type of income like export. A large number of enterprises, universities and institutions are owned by government and private sector only has a small contribution to the GDP, because the linkage between small companies and research institutions is weak. Since small companies do not have access to adequate resources they are not able to focus on customer demand and launch relevant innovation activities. Foreign companies have a very limited range of activities in Iran while they could contribute to importing new technologies. The foreign companies' activities help to diffusion of new technologies like new product or new processes or new management technologies. In this situation other companies inside the country will be persuaded to adopt some innovation into their products, processes, techniques and organization which make the competition fiercer. Telecommunication has become a very important element in

success of businesses. Companies can use internet as a tool to be informed about the latest technologies and global trend. Unfortunately the utilization of Internet in Iran is not considerable which donating to lack of competition. For further in depth research about effects of innovation on competitive advantage in Iranian SMEs, it is recommended to take a larger sample size for better generalization. Also it is recommended to categorize companies based on their industries and in each study just take one of them in account to enhance the understanding of relationship between innovation and competitive advantage in each industry; it is possible that variables vary in the importance in different industries.

9. ACKNOWLEDGMENTS

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