

# Innovation Strategies of the Company

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**Abstract:** The intensive scientific, technological, and economic development during the recent decades requires that the companies' organizational culture implements innovations and company strategies management. It is also necessary that companies stimulate their employees' innovativeness and creativity in various ways. The trend is to create an atmosphere of constructive competition which implies a critical approach to the established and adopted assumptions.

Based on their main competences and strategic competitive advantages, the contemporary companies should constantly aim at securing sustainability, problem-free existence and development in an environment characterised by increasing turbulence.

**Key words:** innovation strategy, pseudo innovations, innovation process, strategic solutions

The realization of the company's innovation strategy requires reconsidering its strategic decisions. This means that companies have to define what specific projects and actions should be realized so that the strategic decisions are implemented and the strategic goals achieved. It is necessary to do this simultaneously with the performance of the routine production activities by taking into account the available company resources and capabilities. According to one of the existing theoretical approaches, the innovation process could be considered as a unity of fundamental research (involving the discovery and study of new phenomena and natural laws), applied research (related to finding methods for using the natural laws to either create new methods or improve the existing ones for performing various activities), and developments (referring to experimental designer, project, or other activities involving the designer or technological preparation for the implementation of an innovation).

According to another approach, the creation of an idea (the invention) could be considered as the beginning of the innovation process while its end is the moment of total exhaustion of the possibilities for distribution of the product or technology in other spheres or companies as well considerable improvement of their features. The invention could occur as a result of a production or consumption problem or the realization of fundamental or experimental research work findings. The production problems could be of various natures – technical, technological, economic, managerial, etc. The

consumption problems could involve a considerable and stable demand which exceeds the supply of a particular product which is accompanied by the inability of further expanding its production extensively due to insufficient resources, restrictions imposed by ecological regulations or laws, etc. Thus, the increase of production could be done by improving the currently used technological processes or by implementing new technologies. The consumption problems could also refer to discrepancies between the consumer requirements about some of the technical and exploitation features of a particular product that could not be improved in the desired aspect by using the available technological processes. One of the modern understandings of the innovation processes management in the company is the concept of the strategic architecture. Some authors think that the realization of the company's innovation strategy which is directed towards using the company's basic competences and their transformation into competitive advantages could be done by building new company's strategic architecture. It is accepted that the strategic architecture is established through creating relations among the functional requirements of the customers, the potential technologies, and the basic competences of the company. The strategic architecture comprises the following basic elements: the organization's knowhow; stimulation of experiments and innovations; constructive competitiveness; empowering, optimal potential for creating value; sustainability of the corporation; strategic reformation. In the future there will be predominately organizations which create knowledge and improve themselves through training.

The organization and management of the company's innovations imply the availability of the following main prerequisites: the managers have to know well the types of innovations in the company and the characteristics of their management; the company's management has to be aware of and take into account the factors and limitations of the decision-taking process concerning strategic innovations; the company should have a concept about innovations; there should be particular innovation strategies with reference to products, markets, and strategic action zones.

Innovation as a complex concept that cannot be defined thoroughly and unambiguously in order to meet the requirements of various real - practice situations. Nevertheless, there are some "corner stone" notions which could be used as the basis for developing a sufficiently detailed idea about its nature. The first element is characterized by the fact that innovations are connected to some novelty, a new idea. The second element refers to the fact that the novelty is used to

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initiate purposeful actions which will lead to real changes in what is being offered ( products or services) and the method of its production, distribution, and realization on the market. The third basic element is the real positive assessment the customers (market) give to the new idea and the product it has been incorporated in. Fourth, the essence of innovations could not be understood if they are not studied as a process including logically separated but interrelated phases and operations. The fifth requirement involves the availability of tangible or intangible results from the development of the new idea. This requirement is fulfilled unconditionally when it comes to new products (materials, raw materials, machines, etc.) and technological processes in a worldwide scale. Although with difficulty, novelties could also be found in improved products and processes and could be described by the terms more reliable, safer, having a better design and legal protection, etc. The result of the implemented novelties could also be intangible when it refers to the organization of managerial processes (new organizational structures, new decision taking procedures, etc.), the provision of services in the non-production sectors, etc. In some cases the novelty itself presents the result of the innovation. For example, the use of cheaper but more durable construction materials (a novelty) leads to the production of cheaper products with a better long – term use.

**The elements of the innovation concept are:**

- novelty;
- real changes;
- positive assessment/evaluation of the consumers (market);
- the innovation as a process;
- recorded tangible and intangible result of the innovation implementation .

The most frequently used classification of company innovations is based on the type of object which the innovation has been implemented in. It is as follows: product innovations; process innovations; market (marketing) innovations; and organizational and managerial innovations. The product innovations are manifested through the development of new products or the improvement of existing ones with reference to their basic characteristic, technical specifications, etc. The result is a higher satisfaction of the customer needs. The process innovations involves the implementation of new or considerably improved production and distribution methods. They may also imply changes in the equipment, human resources, work methods or a combination of the three. The market or marketing innovations are connected to the activities aiming at the commercialization of the products, namely their distribution, communication and methods for influencing the market through prices. The organizational and management related innovations are revealed to the new or improved organizational structures. These innovations may also include the socially or ecologically related innovations which improve the image of the company.

➤ **Basic innovations.**

a) Basic innovations which are the most important ones for the company. They cause changes in the needs system in general as well as in the production system in general;

b) Basic innovations whose importance for the company is of medium scale;

c) Basic innovations which are the least important ones for the company.

➤ **Improved innovations.**

a) Improved innovations of great importance. The range of their implementation is characterized by a new complex of demand (or markets) or a product within the existing demand. These innovations are the basis for the development of industrial subsectors.

b) Improved innovations of lesser importance. These innovations cause a considerable modification of the existing demand or add new features to well-known products. The important improved innovations lead to the development of new product ranges or modifications of the process.

c) Normal improved innovations. They are realized through improvements in the existing demand complex or in the characteristics of well-known products. Their influence on production is limited to improvements in the product ranges or processes.

d) Evolutional changes. This type of innovations is revealed through small improvements of the products or processes.

➤ **Pseudo innovations.** They are as follows:

a) Not very big product innovations which do not increase the effectiveness of products when they are used by customers;

b) Innovations which increase the effectiveness of a process but decrease the effectiveness of the system as a whole;

c) Innovations which increase the system's effectiveness in the short run but lead to considerable losses and instability in the long run.

The classification of innovations which is of great practical importance is based on indicators related to the strategic goals and the competitive positioning of the companies. One such indicator is novelty referring respectively for the company, the market, and the customers. According to it, innovations are classified as follows:

a) Globally new products (radical innovations) which are new both to the company and the customers. These new products are the basis for the development of new markets. They amount to approximately 10 % if the innovations throughout the world;

b) New product range of the company. The company enters a new market with a new product which is familiar to the customers by the sales of other companies.

c) New products expanding the company's existing product range (product mix) which determines its basic activity.

d) Improved products. This innovation refers to the modification of the product ranges of the company.

The changes affect the physical characteristics without modifying the dimensions for their assessment.

e) Products that have been repositioned on the market. These are existing company products that are well-known to the customers but are offered to a different target audience or their uses are relocated in new areas.

f) New products with lower prices. The products are new for the company but known on the market. They are sold at lower prices because of the low purchasing power of some of the customers and the strong competition. The lower price is possible because of the lower production costs.

Some classifications are mainly related to the market and their impact on the customers. According to the degree to which innovations change the customer behavior they are grouped as follows:

a) Consistent innovations which do not change consumption habits but are focused on higher customer satisfaction through improved products;

b) Innovations which change the methods of satisfying certain customer needs, for example, listening to music or watching films at home, etc.;

c) Innovations which create new consumption.

According to the reason which has provoked the process of development and implementation of innovations, they could be subdivided into “pull” and “push” innovations. In the majority of the cases the innovation idea is a result of production and consumption requirements rooted in the mass practice. These are ideas about the so called “pull” innovations which solve contradictions, discrepancies, etc. in the processes, products, and the market demand. The innovation ideas could also occur as a result of fundamental or applied research findings. These inventions contain a potential for creating or satisfying new social needs or for a fundamentally new method for satisfying the current needs. Such scientific and technical achievements enhance the possibilities for making technical and technological progress. In this sense they are ideas which stimulate the so called “push” innovations. The two different mechanisms for the occurrence of ideas show that the innovation process is a two-way one, i.e. it runs from the science to the production and consumption or the other way round, i.e. from the production and the market to the fundamental and applied research.

According to the degree of coercion for their implementation, innovations could be coercive and non-coercive. The coercive ones fall into two subgroups. The first subgroup involves innovations which are compulsory in order for the company to meet the national or European Union legislative requirements. These innovations refer to the reliability of the production processes, the work safety regulations, the impact on the environment (ecological requirements), products and food safety, etc. The second subgroup consists of innovations which are compulsory for the company with reference to its survival as a minimum goal. The non-coercive innovations are those which are implemented

after a decision taken by the company’s owners and managers in order to secure its growth and help it catch up or overtake competitors, develop new competitive advantages, etc. The choice is made after considering a multitude of alternative innovations.

The presence of an overall strategy facilitates the company to take decisions referring to the strategic sphere of innovations. The overall strategy provides important information concerning the basic and permanent company goals; the main directions where it is necessary for the company to focus its efforts and look for ways to achieve its goals; the resources through which the company plans to achieve the goals in the main strategic directions.

In general, the common strategy may require the use of a number of resources for securing a position which will help the company to perform more successfully than the other companies in the sector. How and who takes the strategic decisions in the company? The answer to this question depends on several conditions. The first one is related to the fact whether the ownership is separated from the management. The second one refers to the sector in which the company operates. The third one involves the strengths of the key “players” determining the balance in the sector and the degree of competitiveness. These players are the distributors; the clients; the new companies entering the market; the substitute products; and the rival companies. Companies operate under conditions of uncertainty. Thus, they have to forecast the demand by deciding how much to produce. They can take decisions about the prices because they produce differentiated products and could rely on the fact that their customers would continue to buy these products although their prices a little higher compared to the competitors’ prices.

The objective of companies is to maximize profits in the long run. In order to achieve this, they have to invest and renovate themselves. A considerable part of the funds used for these purposes comes from the retained profits. The innovations and investments should secure the long-term growth of the companies. The competitiveness forces companies to stay close to their rivals. According to the managerial model, the innovation and investment activities of the company would be considerable, including also the funds planned for reinvestment of the retained profits. The strategic management of the big companies, where the ownership and the management are separated, to a high extent depends on the owners’ and managers’ definition and understanding of the company.

a) the company is a coalition of various groups of interests within and outside it;

b) the interests of the different groups do not coincide completely or are contradictory;

c) each group has not only interests in the company but also certain power to influence the company’s activities so that these interests are satisfied;

d) no single group possesses monopolistic power to force decisions which satisfy entirely and exclusively its interests.



An important conclusion from the behavioral theories is the necessity for the company to achieve its goals and take the more important decisions through compromising. For example, instead of “maximum profit” the aim should be “satisfactory profit”.

Requirements to the decision-taking process concerning innovation and investment decisions:

- Due to its strategic character, the company’s innovation and investment decisions affect the interests of various groups inside and outside it;
- The innovation and investment projects have to take into account the interests of all groups who have the actual power to influence the company and the particular project;
- The assessment of the innovation and investment projects should be based on a number of criteria connected to the following areas: profitability, growth, relations with the employees and the management, relations with the distributors and the customers, public relations, etc.

Within the framework of the innovation strategy development in the company it is necessary to determine the activities which should be carried out in order for the company to fulfill its particular goals, their distribution in time, and the required resources. The planning horizon varies according to the type of business. It also depends on the time needed for the realization of the research and development tasks as well on the frequency with which new products or technologies appear.

## CONCLUSION

In conclusion it could be said that the company’s innovation plan is aimed at determining particular actions for achieving the goals set in its innovation strategy. The most important functions of this plan are to coordinate the efforts of the participants in the innovation process and to interconnect the company’s goals and the possibilities for future development. The possibilities are determined, on one hand, by the dynamics of the company’s external environment, namely the expected favorable possibilities and threats. On the other hand, they are dependent on the available resources and the company’s capacity for innovation activities.

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