Reinventing "Newness": A Theoretical Approach of Innovation as an Incentive to Increase Firm Performance

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Abstract

The world in which we live is affected by continuous and accelerated change, and this has led in time to real industrial revolutions or even financial crisis. The new technological development is characterized by the emergence of new dominant industrial branches and a change of targeted management activities more and more towards a better, improved management of technological resources and innovation activity.

In the context of an increasingly obvious trend of innovative business development, companies are forced to find solutions that allow them to adjust to the changes that characterize the current economic and social environment.

This is also the issue addressed in the paper, which aims to present theoretical approaches to innovation and to highlight the importance of innovation activity for improving firm performance.

Key words: firm performance, competitive advantage, innovation
J.E.L. classification: L25, O31

1. Introduction

In the last decades there is a great emphasis on innovation as a drive for competitiveness of products and processes, as a distinct feature of emulous firms and as a principle not to be missed when trying to adapt to the knowledge based economy defined in the Lisbon strategy. There is also a well-known fact that innovation has much to do with the firms' capacity to face the on-going rapid changes in the external environment. With this in mind we could easily assert that innovation is not only related to high technology, to the most competitive sectors of economy or to the most developed nations worldwide. On the contrary, innovation is nowadays globally present, from (re)defining an organization's vision or introducing a new product to the market, from the academia research projects to public agenda or transfer of new technology. It wouldn't be wrong to approach innovation as an ubiquitous concept in any organization that strives for competitive advantage in an ever-changing economy.

It is no longer an option, but a necessity to consider all potential factors that lead to a company's performance in the digital era, in times when technology plays such a vital role in leading successful businesses and human resources are constrained to gain new competences relevant for the global market. A firm's survival is no longer confined strictly to releasing new products since competitors may have already introduced them in use and financial resources might be lacking for such costly investments. Organization performance is lately considering causal factors like creativity, speed of action, readiness to change, ability to adjust to market demands, agility and more.

There is no debate that analyzing the current global economy on the whole, one is easily drawn to the conclusion that new products and services are the ones that generate the most revenue and this particular fact is the one that stimulates companies to invest in research and innovation, thus proving the inherent link between the need to innovate and competitiveness. Improving the business model and process innovation is a possible answer to maintaining the competitive advantage, a more equilibrate formula than investing time, energy, financial resources and human capital to come up with new products or services. Improving the business model could mean even changing it to better respond to the clients' needs, to enter new market sectors, thus getting ahead of competitors. From this point of view, innovation is viewed as motor drive of competitiveness, of economic growth and added value for consumers. We should focus our attention on the ability of companies to innovate as a way to finalize this process, of ensuring firm performance no matter the size of the company or availability of resources more than initiating it. And this is because the very existence of resources to implement innovation might already be at hand since innovation is about efficient use of resources too and this needs business education, awareness and constant debate with multiple stakeholders.

2. Literature review

Defining terminology was never an easy task and innovation is not an exception. One of the most concise ways to define the term innovation is: "(1) the introduction of something new, or (2) a new idea, method, or device" (Merriam-Webster, 2017). These two definitions might seem similar, but present differences in the way one would perceive innovation: on the one hand the first definition views innovation as a result, while the second definition reveals innovation as being a mechanism, a process, a continuous action. In our opinion, such a distinction in approaching innovation would lead organizations and companies' leaders to failure or inefficiency in implementing the principle of innovation. Being focused on innovation as a result, firms would decrease the chances of market success or company performance since they overlook the aspect of result duplication or reducing the available resources for maximizing profit. Equally, viewing innovation as a process might lead organizations to focus too much on procedures, on administrative actions that give birth to an overwhelming bureaucracy that is not result-oriented and channel too much of companies' efforts in vain.

The pioneer in defining innovation is undoubtedly Schumpeter (Śledzik, 2013) who divided the term into a series of five types:

- Launching of a new product or a new type of product which is already known;
- Application of new methods for production or sales of a certain product (which was not proven in a certain industry yet);
- Opening of a new market;
- Acquiring of new sources for raw material or semi-finished goods supply;
- A new industry structure (e.g. the creation or destruction of a monopoly position).

The distinction being made even before the middle of the last century is innovative in itself due to the fact that in our opinion this classification reveals the fact that Schumpeter acknowledged the essence of innovation as being something new, but taking into account different types of newness and more than one artifact in business environment, that is not only the final product, but production, methodology, sales component and resources too.

Still focusing on innovation as generating something new, Damanpour defines the adoption of innovations as being able to "encompass the generation, development, and implementation of new ideas or behaviors" (Damanpour, 1991, p. 556).

Nohria and Gulati shift the point of view specifically to the human factor since newness is a concept consciously to be perceived only by a person. Thus innovations "include any policy, structure, method or process, product or market opportunity that the manager of the innovating unit perceived to be new" (Nohria and Gulati, 1996, p. 1251).

At European level, within the framework of defining strategies and policies common to several different member states, each with its own specific economy, in various types of industries, innovation was largely described and explained, finally being illustrated as a synonym for the successful production, assimilation and exploitation of novelty in the economic and social environment (The European Commission Green, 1995).

An association of factors is taken into account when Boer and During define innovation as the "creation of a new product-market-technology-organization-combination" (Boer and During, 2001, p. 84). This conceptualization is taking into account several aspects that worth mentioning: that innovation is a process-type newness, based on business artifacts and assesses both small-sized innovation (incremental innovation) and radical innovation as well, by associating on a somehow equal level the multiple facets of a business development.

In what the concept of performance and firm performance concerns, the way it appears defined in the dictionaries of main European languages, it determines the idea of outcome or result, goal, quality of actions taken, and less the well-known economic aspects of efficiency or effectiveness.

The Merriam-Webster Dictionary defines performance as ″ (1) a: the execution of an action; b: something accomplished; (2): the fulfillment of a claim, promise, or request″. These definitions show that the term performance is not synonym with any deed or action which is accomplished, but moreover is linked to a beforehand defined goal or promise which is finally achieved and fulfilled. This double dependency on time factor, before and after, means that there is about strategizing and staging or implementing when it comes to performance, it's about objectives and results and in line with this complex new economy, it's not about fate or luck, but it's all about the process and clear-cut steps taken to achieve firm performance.

This type of time-dependency is consisting with the definition of performance in Lebas since he views it as future oriented, reaching the objectives and targets as a result of implementation of actions (Lebas, 1995). This implies a causal relationship between past business strategy for development and future reaching of success due to certain established steps that lead to performance. In this way performance is dependent in equal shares both of the past and the future: the ability of a firm to achieve performance as defined in the past. In other words, he views the private organization goals for the future and extrapolates the meaning of performance as organizational potential to achieve it. It's a subjective point of view on performance, idealistic and possible, but not necessarily materialized into measureable indicators.

The Sink and Tuttle model for performance is a traditional one conveyed in specialized literature (Salloum and Wiktorsson, 2009) since it takes into consideration no less than seven criteria intertwined in a complex relationship:

- Effectiveness, defined in terms of "right": doing the right thing at the right time with the right amount of quality, a ratio between actual output and expected output;
- Efficiency, involving doing things the "right" way; also viewed as a ratio between estimated consumption of resources and actual use of them;
- Quality, a broader and more complex concept measured with the help of six checkpoints: quality management process, inputs, outputs, downstream and upstream systems, transformation value adding process;
- Productivity, traditionally understood as the ratio between inputs and outputs;
- Quality of work life, bringing vital contribution to a highly performing organization;
- Innovation, the key element that sustains and improves performance;
- Profitability, as a final objective of any given company.

At a glance, there is no question that the first three criteria are an ensemble that leads to company productivity, whereas quality of work life and innovation are the ones that smoothly balance, when implemented, in favor of increasing performance of a system. Considering time as a factor, resilience and dedication to apply certain criteria in business development would make the difference between short-term profitability and long-term economic growth, sustainability and excellence in the field. When going deeper in analyzing this model, a conclusion is drawn: it overlooks the client perspective, the consumer as final beneficiary of performance, the outsider point of view which puts into question the client needs and needs satisfaction. Although the business field is always a changing climate, this particular model remains a satisfactory one by placing flexibility in the same conceptual equation with performance and innovation.

As a result of complex factors that may influence performance, Annick Bourguignon defines the concept of performance illustrated into three important meanings of the term:

- Performance means success. There is no performance in itself, but only in relation with the businesses' or business actors' success.
- Performance is the result of an action. Measurement of performance is viewed as an evaluation of achieved outcomes, as a result of a process or an activity.

- Performance is action. In this line of judgment, performance is in itself a process, rather than a result that is achieved after a period of time (Bourguignon, 1997).

We view this latter assessment of performance as being rather tangential with opinions on innovation as a process and in this regards, we assert the consistency of definitions of both terms with attention placed on change, flexibility, the willingness to adjust to environment variation and the ability to embrace and rethink the concept of newness.

3. Innovation as prerequisite to attaining firm performance by reinventing the "new"

There is a generally formulated agenda that innovation brings along benefits that empowers an organization, stimulates performance and give a competitive advantage no matter if we refer to the firm as being a SME or multinational enterprise. For this reason it is worth mentioning that Damanpour recognized that "the adoption of innovation is generally intended to contribute to the performance or effectiveness of the adopting organization" (Damanpour, 1991, p. 556). At the same time, European Commission determined the crucial reasons of why should organization innovate, since "innovation is an essential precondition for growth, maintaining employment and competitiveness" (The European Commission Green, 1995, p. 8).

Reviewing innovation, this has been described and classified in numerous varieties, but for the relevance of the current topic in discussion, we consider innovation as a means to achieving firm performance understanding it in three ways: innovation as an outcome, as a process and as mindset.

Outputs are the focus when discussing innovation as an outcome. The most usual approach in this regard is associating innovation with the introduction of new products and new services, also commonly known as product innovation. Still, a more accurate understanding of innovation as outcome include, without restricting the list, the following: product innovation; process innovation; marketing innovation; business model innovation; supply chain innovation; organizational innovation. We will not ponder on describing each of the types but we will make an assertion that this type of innovation is the closest related to something new, out of the ordinary, unusual and never been achieved or implemented before given similar business aspects. Conceptualizing even more, we could bring into discussion the metaphor of innovation as being the "what" that leads to firm performance.

Innovation as a process should not be missed as a potential strategy for achieving performance because it views innovation as transformation, movement between what is estimated and what is achieved, a series of actions towards an end. There is an obvious shift in perspective when comparing this approach of innovation with the first one because it attends to the "how" a company is organized so that outcomes occur in accordance to what was meant to achieve. A model for innovation as a process is portrayed in three phases: discover, develop, and deliver. In the first one, the company searches and isolates opportunities on widely, general manner. Those which bear potential are fructified into the develop phase. Thus, technical specifications are conveyed and outcomes are drafted. The final phase is the ones that the offer appears in the form of a result of a process, put into use, such as being sold to the customers. This process-type approach is relevant to the fact that innovation is much more than a new idea or creating something new (in which case innovation might easily be confused with invention). The execution, the path from idea or opportunity to result – this is the essence in understanding innovation as process. The lack of deliver phase would mean that innovation did not take place since mere invention is self-sufficient, whereas innovation is putting into a relevant and purposeful use the creative ideas or the new products or services.

Innovation as a mindset brings something new to the debate because it implies notions as individual and internal features of human resources in a firm that promote the "culture" of innovation. This is achieved by means of an internal motivation and tendency to permanently create and recreate the new throughout an organization, at any level of its development. Innovation seems to come as natural, as newness in constant use or even as a purpose. Paradoxically, innovation is, with regards to this reasoning, both a cause as well as an effect, equally a reason and a purpose.

The reasoning of such internal characteristics of individual is not the object of our endeavors at the moment, but we will at least enumerate the five skills that Dyer, Gregerson, and Christensen stated to be the right combination to push new ways of thinking, stimulate and embrace innovation (Gregersen, Dyer and M. Christensen, 2011). These five features are the ones that distinguish organizations known for innovation on a global view:

- Associative thinking is the feature that help an individual make connections between different ideas, questions or problems even from fields which apparently are not related to each other;
- Questioning stimulates creativity in thinking by searching answers beyond the common wisdom;
- Observing means that individuals search for opportunities to innovate by evaluation the current status quo inside or outside the business organization: from internal processes to consumers' behavior or competition in order to manage risks or improve firm performance. In our opinion, this feature is the trigger that differentiates what was and is no longer new and create something new;
- Experimenting is all about construct and interaction with newness to test possible use and provoke benefits for the company;
- Networking seems like a personal feature that relates to going outside the confined box of singular perspective on business. Meeting people, changing ideas, sharing experiences, debating on "how" things should work better is according to us the core essence of the new economy in an era when communication goes beyond message transmittal.

We might state that innovation viewed as mindset, applied in equal share at individual and organizational culture also, changes the perspective. Innovation is no longer a linear procedure, a road from two distinctive points, it is circular, is interactive, is considering all aspects of business environment, of society and economy in ensemble, is a living organism to which newness needs permanent nurturing.

Still, not everything new is at the same time beneficial to a company the same way innovation is not always an indicator of firm performance. And the one that exemplified with such relevance this paradox is Ilya Prigogine who concluded that "novelty cannot be good from every point of view. Is Mozart's music progress in respect to Bach? That's very difficult to say. You see, in some sense Mozart has made Bach's music obsolete. However, in another sense, one can say that Bach's work still remains a model of religious music, while Mozart has introduced a model of opera, more secular music. By definition, novelty contains aspects of things that didn't exist before. But one should not necessarily identify novelty with optimization. Novelty can be either good or bad. For me it has been very important to show that time plays an essential role in the world around us" (Prigogine, 2004). This statement makes reference to a component that is outside the lens of economy and appeals to that "arrow of time" that will eventually determine whether novelty, or newness as we named it in the present paper, is the best approach to increase firm performance. We consolidate this opinion by declaring innovation as a possible factor that might bring organization's success and performance, a strategy of reinventing what is new in a constant changing and challenging climate by lateral thinking, experimenting and objectively analyzing outcomes as time goes by. If innovation does not bring firm performance, one of the causes might be that it was not the optimal strategy and at that moment it is time to try something (else) new.

4. Conclusions

The existing literature on innovation and firm performance, along with their inter-connection is widely spread and illustrative of a variety of opinions and points of view. A large majority of studies have been asserting the beneficial effect of implementing innovation and innovativeness spirit as a stimulus to increase performance of the organization, but we concluded that further discussions are needed to assert the impact of innovation taking into consideration aspects such as business ethics, rate of employment or changes in human resources competences or need for innovation in the public sector.

Innovation is nowadays a priority within the context of global economy which appears not to be fully recovered after the last decade's financial crisis. More than ever, actors in business development should at least experiment, if not implement, innovation, at least as a measure to face newness in the future or prevent static, traditional and out-of-use business models which rarely lead to performance. The speed of technological development was traceable up to a certain point; it is now getting ahead and if we cannot pace with it, businesses will barely survive, let alone perform. In addition, we should not overlook the preference of consumers for something new, and the ability of a company to put into practice a new idea might be a source of competitive advantage and the reason for which a client may choose one particular firm over another. Thus, the companies that create for themselves competitive advantage are able to increase their activity efficiency and improve firm performance by experience, by new knowledge that, in time, may be the very sources of distinctive competences on the global market.

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