

THE ROLE OF INNOVATION IN ENTREPRENEURIAL DEVELOPMENT

Mihaela Ghicajan, assistant professor, University of Petroșani

Dobre-Baron Oana, associate professor, University of Petroșani

Abstract: *In this paper we present the importance and role of innovation in the activity and entrepreneurial development in business management. I addressed the subject of innovation in economics, trading and invention not as a technological concept. Thus, the distinction between invention and innovation is made and also the significance of the economics in the development of entrepreneurial innovation, and in the paper these concepts will be specified as defined in literature. From an economic perspective, the theory treats at least four types of innovation: product innovation, process innovation, marketing or commercial innovation and organizational innovation.*

Keywords: *innovation, creativity, business management; product innovation, innovation in process.*

1. CONCEPTUAL DEMARCATIONS

In order to understand the term of innovation in business or innovation in entrepreneurial development we will make some remarks regarding invention, innovation and economic significance of innovation, according to specialty literature.

The invention is „about progress of knowledge, which is focused on technical or technological elements. The condition to succeed consists in proper functioning”,[8].

For example, F. Malerba (1997) defines invention as "a new idea, a new scientific discovery or a technological innovation (which has not been implemented and disseminated before”,[2].

While innovation aimed at a „marketable application of an invention, as a result of its integration into the social and economic practice. Innovation is regarded as a result of a process that begins with the genesis of an idea and continues with its materialization”, [2].

The American economist Joseph Schumpeter proposes a definition of innovation in technical economic domain in *Theory of Economic Development* (1934) and then continued in 1942, in his paper *Capitalism, Socialism and Democracy*, definition which has ta great generality, namely: "Innovation is to produce something else or to produce differently” , [8].

Therefore, J. Schumpeter sees innovation as a function of entrepreneurial activity, in which they occur "new combinations" of existing resources. Schumpeter's definition continues to be the benchmark in the association of "new combinations" of factors with production of new products and services, introduction of new production processes, marketing and business organization.

A similar definition is found in the OECD Frascati Manual (1981): Innovation is "the overall process of technological and commercial creativity, of transfer of a

new idea or a new concept to the final stage of a new product, while the process or service activity is supported by market”, [2].

Peter Drucker identifies innovation as being part of the entrepreneur's actions. Like Schumpeter, Drucker states that "the norm" of a healthy economy is represented by the dynamic isequilibrium created by the innovative entrepreneur rather than balance and optimization. Therefore, the change (in the sense of action to create some values and some different 'satisfactions') and innovation are considered essential and indispensable for defining entrepreneurship.

The entrepreneur, says Drucker, is the person who "is always looking for change, responds to it and exploits it as an opportunity" [3]. And the means by which entrepreneurs seek change is innovation.

The fundamental source of change is "The unexpected". No other fields, notes Drucker, provide greater opportunities for innovation than unexpected success. However, most people tend to not notice, neglect or reject messages sent from it.

The natural tendency of people is to assume that if everything went well for a long period of time it is natural that "it must continue like that forever." When a person senses its potential and begins to exploit the opportunity, he can be considered a successful innovator.

The Innovation (scientific and technological) can be considered a "transformation of an idea into a marketable product, new or improved, or an operation process in industry or business, or in a new social method”,[2].

Innovation – more of a social term than a technical one, defined in terms of demand or by changing the value and satisfaction obtained by the customer from the opportunities offered.

The theory of innovation is still incomplete, but the practice of innovation can be explained. From the "stroke of genius" "brilliant idea" to "systemic innovation" there are practical steps that the contractor exploits", [6].

Some companies, reputed by their concerns for continuous innovation, have proposed other definitions that are more pragmatic. After the 3M Company (3M Company- Innovative Technology for a Changing world), which is a multinational company in the USA known until 2002 as the Minnesota Mining and Manufacturing Company, believes that *innovation is the practical application of a creative idea that materializes in the increasing rate of the turnover or in the reducing costs.*

In literature there are stated *three basic conditions for entrepreneurship:*

- Entrepreneurial innovation means work, perseverance, ingenuity and business disposition.
- In order to succeed, innovators must rely on their strength and ability. Innovative opportunity has to be discovered and exploited by a suitable temperament.
- Innovation creates an economic effect and produces consequences for the society, a change that positively or negatively affects certain categories of people. [7].

2. TYPES OF INNOVATION IN THE BUSINESS ENVIRONMENT

According to the experts from 3M Company, we can speak of two types of innovation:

- *adaptive innovation*, when the company staff finds a better way to perform tasks or a solution to one of the problems the company;
- *creative innovation* when there is something new, that nobody thought so far and that leads to a decisive competitive advantage.

If we analyze Schumpeter's innovation approach, in the specialty literature there are discussed at least four types of innovation, which are:

1. creating a new product - product innovation
2. introducing a new method of manufacturing - innovation process;
3. entering a new market (or create a new market) - marketing or market innovation;
4. calling for a new raw material - innovation of product / process;
5. a new organization of company –organizational innovation

Lately it may be permitted the emergence of a sixth activity, namely creating a certain image of the company - *Innovation brand or corporate identity* ID Corporation.

Also, another relatively new term introduced is that of *open innovation*. Open innovation is a relatively new concept pioneered in innovation management and business management and was first introduced in 2002 by Henry Chesbrough and his group at Berkeley Business School. Open innovation or the innovative

network "can be understood as the work of innovation through collaboration with other companies (supply chain) in a predetermined contractual framework," [1].

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

3. THE ELEMENTS THAT SUSTAIN INNOVATION

In a ranking conducted by Innovation First International Patent Intelligence [10], for 20 years International Business Machines (IBM) has been occupying the first place among the inventors worldwide.

With 6,478 patents approved in 2012 in the United States, IBM leads the ranking in which there are other technology industry's biggest names such as Korean company Samsung, the Japanese Sony, Canon or Panasonic, American companies Microsoft, Apple and Hewlett-Packard, Siemens or Bosch in Germany. And given that they lead the standings is not arbitrary because "the innovation champions" are among the country-leaders in structuring the environment necessary to promote innovation, according to a global study initiated by General Electric and conducted by the research company StrategyOne.

Thus, according to the study conducted by Innovation First International Patent Intelligence on a number of 3000 executives from 25 countries and five study indicators, there were identified factors that determine a favorable environment for innovation. The five study indicators were:

- *Strict legislative environment*
- *How the authorities promote and invest in programs that could help innovation*
- *Factors that companies can not control , such as the types of capital funding available and the accessibility level of credits*
- *Promoting done by the companies of an innovative environment in their organization*
- *Quality training and education in each country*

The most relevant factors in support of innovation and entrepreneurial development drawn from this study are:

- The existence of policies to encourage innovation;
- Support from the government and politicians;
- Educating and developing the specialists - Business development through a stronger link between companies and education;
- Combating bureaucracy and administrative routine especially on accessing funding and incentives
- Protection of the trading secrets and of the intellectual property.

4. INNOVATION IN THE EUROPEAN BUSINESS

Entrepreneurship in successful business is achieved only through innovation and creativity.

Entrepreneurship can be regarded as the activity that serves the company's objectives and its subordinate to its goal - namely to obtain and maximize the profit. Entrepreneurship is considered a business development engine, "one who takes the risks and responsibilities of a business" [6].

During the past 20 years, EU policy about innovation yielded remarkable results and continuous improvement of European performance in this area. However, the world is changing rapidly, because this is the very nature of innovation and the Commission prepared by developing under the Europe 2020 Strategy the proposal on "Innovation Union".

Gradual exit from the financial crisis and the need to respond to global challenges have led innovation to become more important than ever. Issues related to climate change, food and energy security, health and aging can be solved through innovation.

The initiative focuses on innovation, as a mean to address major societal challenges identified in the Europe 2020 Strategy, proposes extending the meaning of this concept and invites all regions and stakeholders to involve in the innovation process.

The main objectives of the "Europe 2020 Strategy" are:

- Strengthening the knowledge base of Europe and reduce fragmentation - by promoting excellence in education and skills development;
- Turning good ideas into marketable products;
- Elimination of social and geographical disparities;
- Sharing the resources to achieve major improvements;

According to a European Commission study [9], "Entrepreneurship in the EU and beyond - Analytical report" in Europe, more than half of the companies in the EU27 are innovative.

In Romania, one of three companies innovate, but only 13% collaborate with foreign partners, the study adds.

The study shows that 52% of companies in industry and services reported innovation activities between 2006 and 2008, and the countries where there are the most innovative companies are:

- Germany (80% of companies)
- Luxembourg (65% of companies)
- Belgium and Portugal (58% of companies) and Ireland (57% of companies).

Countries that have registered the least innovative companies are:

- Latvia (24% of companies)
- Poland (28% of companies)
- Hungary (29% of companies)
- Lithuania (30% of companies).

Table 1. European countries with the most innovative companies (source: Eurostat statistical office of the Commission)

No.	Country	Percentage of innovative companies from the total number of companies
1	Germany	80% of companies
2	Luxembourg	65% of companies
3	Belgium	58% of companies
4	Portugal	58% of companies
5	Ireland	57% of companies

1	Germany	80% of companies
2	Luxembourg	65% of companies
3	Belgium	58% of companies
4	Portugal	58% of companies
5	Ireland	57% of companies

The study stated that only 33% of companies that have brought new ideas have worked with foreign partners, research institutes and other companies, the remaining 66% preferring to bring innovation through its own resources.

Neither our country does not do too well at innovation, only 33% of companies reporting new business during the survey from 2006-2008.

Only 13% of these have collaborated with other institutions or companies to produce innovations, and only 7.6% have collaborated with partners in the euro area, the percentage of firms that collaborate with partners in other parts of the world (United States, India or China) being even smaller.

Table No.2 European countries with the least innovative companies (source Eurostat statistical office of the European Commission.)

No.	Country	Percentage of innovative companies from the total number of companies
1	Latvia	24% of companies
2	Poland	28% of companies
3	Hungary	29% of companies
4	Lithuania	30% of companies
5	Romania	33% of companies

5. CONCLUSIONS

More and more companies confer importance and are directed more and more towards innovation, research and creativity. Thus, the international agreements and European documents are giving a separate space to innovation. Regarding to this, the year 2009 was declared the year of innovation at EU level under the slogan "Imagine. Create. Innovate ". Innovation is at the heart of economic growth as its catalyst, and also it became a factor in competitiveness. Companies that are successful and have the fastest growing records are those companies that use innovative solutions to current business and that is why a significant proportion of these activities are dominated by theimproving antreprenotrial. Successful business entrepreneurship is done only through innovation and creativity.

Global business environment is subject to some accelerated changes due to technology development in a fast pace, to the impact of competition that comes from inside and outside markets. The general trend of the business models is innovation. Therefore, the pace of innovation has become a challenge for local economies and innovation became a strategic priority for companies. To develop a local entrepreneurship requires a number of measures and factors to support and promote innovation.

6. REFERENCES

- [1]. **Chesbrough, H.**, *Open Innovation: The new imperative for Creating and profiting from Technology*, Harvard Business Press, 2006
- [2]. **Diaconu, M.**, Technological Innovation, Concept, Process, Typology, *Economic Implications*, Theoretical and Applied Economics, Volume XVIII (2011), No. 10 (563), p. 127-144
- [3]. **Drucker, P.F.**, *The Practice of Entrepreneurship, Innovation and Entrepreneurship. Practice and Principles*, Harper & Row, New York, 1985
- [4]. **Ghicajanu, M.**, *The role of Entrepreneurship in Contemporary Business*, Simpro 2012, International Symposium, Scientific Fields, Management and Marketing, Petroșani, 2012
- [5]. **Lăcătuș, S.**, *Innovation, Source of Competitive Advantage*, West University of Timisoara
- [6]. **Marian, L.**, *Entrepreneurs and Entrepreneurship*, Ed "EFI" ROM Tg. Mures, 2007
- [7]. **Marian, L.**, *Practical Guide of Entrepreneurial Innovation*, University "Petru Maior", Targu Mures, 2010
- [8]. **Schumpeter, J.**, *Capitalism, Socialism, and Democracy*, published in the Taylor & Francis e-Library, 2003, <http://digamo.free.fr/capisoc.pdf>
- [9]. <http://ec.europa.eu/enterprise/>
- [10]. <http://www.innovationfirst.com>