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Competitive Advantages through Innovation in SMEs in Iran

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Abstract:

Due to the highly competitive business environment and emerging knowledge intense economy, it seems so essential for enterprises to be prepared to face the challenge. Enhancing capacities and capabilities enable firms to obtain competitive advantage which make them different from the competitors and react to the changes in better ways. To gain competitive advantages, companies need to do things different from others. Being innovative and adopting innovation, empower firms to acquire such a position and do the work procedures in a more effective and efficient way. To enhance the understanding of innovation importance and its impacts on competitive advantage the current research has been conducted. A questionnaire has been developed and data was collected from a sample of 114 Iranian small and medium enterprises. It is believed that lack of competition in Iranian industrial sector and economical infrastructure, small companies are less likely to pay attention to innovation activities and adopting innovation. Limitation and recommendation are also provided.

Keywords: Competitive advantage, innovation, Small and Medium size Enterprises (SMEs)

1. Introduction

In terms of surviving in global competition, maintaining competitiveness, improving economic performance and growth, contributing to national economic development, innovation is an important element for the companies. The economic growth achieved by competitive advantage increases employment and production and, in return, leads to economic development and a rise in social welfare. When a sustainable growth is achieved, companies are pushed to innovate and to increase their ability to meet the new requirements by new products, new services and new processes. In a globalized world, private and public sector have been transformed in all dimensions. The inability of major industrial policies to obtain the desired success forced countries to search for new skills. The sheltered areas for companies and countries are decreasing due to the competition. "In addition, the market forces are insufficient to move companies and economies into an advantageous position. For these reasons, new ideas should be raised and implemented" (Arnold, 2007). To succeed in global competition, companies need to create new ideas, new products and innovative strategies and need to manage them correctly. Developing and managing innovative and creative abilities in a systematic way elevates the competitiveness of first the companies and then the countries. Innovation management becomes essential for economic growth and sustainability of the companies.

2. Literature Review

2.1. Competitive Advantage

Competitive Advantage is a possession that a company has against its competitors. It happens when the company gains profit more than industry average for a certain period of time. In other words, it happens when a company is able to create superior value for its customers and superior profit for its own. Hakkak et al., (2015) believes that a company may create a sustainable competitive advantage through three different strategies:

- Cost leadership; it is obtained when a company offer products and services same as competitors but in a lower cost.
- Differentiation; a company can make its products or services unique in the way that deliver the greater value to the customer and customers are willing to pay even more to obtain that value.
- Focus; a firm focus on a narrow segment (market niche) to achieve a local competitive advantage. The firm may focus on cost or differentiation. It is largely believed that innovation has a significant role in creating and sustaining competitive advantage.

2.2. Innovation

Innovation is defined as introducing new things or doing things in a different and new way. Salge, T.O. & Vera, A. (2012) Innovation by word means doing something new or doing things in a new way in order to enhance performance and productivity. The goal of innovation is positive change though most of the time innovations fail. From an organizational aspect, innovation attempts to improve the productivity, efficiency, quality, market share and competitive positioning. The most important challenge here is to sustain a balance between process innovation and product innovation. Since process innovations lead to improvement in efficiencies, increase shareholder's satisfaction but in product innovation which leads to customer satisfaction, requires large investment in R&D that may reduce the profit. Drucker (1985) categorizes sources of innovation to Internal Sources and External Sources which are described as follows. "Innovation is a key driver of economic growth. The development, introduction or implementation of new or significantly improved goods, services or processes is generally considered to be innovation". Australian Bureau of Statistics) Garcia and Calantone (2002) put it in this way; "Innovation is an iterative process initiated by the perception of a new market and/or new service opportunity for a technology based invention, which leads to the development, production, and marketing tasks striving for the commercial success of the invention" (Fagerberg, and Verspagen, 2009). "Invention is the process of discovering or creating a new thing a new product or a process. If this new thing is developed and successfully introduced into the market, it becomes an innovation (OECD, 2005)".

2.2.1. Internal Resources

- The unforeseen, which happen suddenly based on success, failure or external occurrence.
- The incongruity, gap between what is existing and what it is supposed to be.
- Innovation based on requirement for a course of actions.
- Modification in industry or market formation.

2.2.2. External Sources

- Changes regarding demographics
- Comprehension, definition and mood modification
- New knowledge

2.3. Product Innovation and Market

Product innovation and market orientation are believed to be essential elements for firm's success. They also seem to have a key role in the competitiveness of the firm (Hunt and Morgan 1995). Some scholars agreed that there is relation between product innovation and market orientation. market orientation could influence which project has to be chosen for product innovation. This selection determines accomplishment of the product innovation process (Cooper 2001). Based on previous studies, main factors which have effect on innovation activities in manufacturing industry are firm size, market structure, technological opportunities and mutual action among the various economic agents in the national innovation system (Leo, 1996). Cohen et al. (1996) illustrate that sectoral discrimination have a key role, since companies which access to networks of research and development (R&D) are more likely to innovate. Leo (1996), in a study based on data from about 600 manufacturing venture explain that determinants of product and process innovations are the same. But Kraft (1990) in his survey on some firms from same industry illustrate product and process innovations are different even in the same industry. He also believed that product innovation result in process innovation but not conversely. Product and process innovation are different from each other but there is no necessity to distinguish organizational innovation and process innovation.

Innovation and creativity in a firm have a close relationship with competitive advantages;

- As we can see, introducing new products by companies help them to gain larger market share. Imagine what would happen if firms did not offer new products to the market.
- Since life cycle of products is decreasing, it seems to be an obligation for firms to introduce new products frequently.
- In order to survive in intense competition of today's market, firms have to be innovative enough to be dynamic in competition with other companies.
- Innovation seems to be imperative because of macro changes, like globalization. There is no more the matter of local or domestic competitors but global competitors.

Small businesses utilize innovation by inventing new products and services, handling the business in a more efficient way and obtain customers which are determinants for the future of firms (Intuit report, 2009).

2.4. Small and Medium size Enterprises (SMEs)

There are different definitions for SMEs and also different quantitative measures are presented to clarify the meaning of SMEs. European Union categorizes companies with less than 250 employees as medium, with fewer than 50 as small and with fewer than 10 as micro firms. In this definition enterprises which their annual turnover is not surpassing 50 million Euro and/or their annual balance sheet is not more than 43 million Euro and the number of people who are employed in is fewer than 250 persons are considered SMEs. In the United States companies with less than 100 employees are considered small firm and medium sized firm refers to companies with fewer than 500 employees. In Iran Industries are divided in two groups: small firms which are private and large industries are commonly governmental and hire more than 500 employees (Economic Development Plan). Based on statistics 93% of Iranian small

firms have less than 50 employees. It is largely confirmed that SMEs have a significant role in economic growth and job creation. Small firms have some advantages in compare with large firms in doing innovation activities. It helps them to better recognize opportunities and take advantage of them in a shorter period of time and a less expensive way than large companies. The enablers who conduct firms to innovation are: personal passion, agility and adaption, customer connection, experimentation and improvisation, resource limitation, information sharing and collaboration (Intuit, 2009).

3. Research Problem

Previous studies 'literature has shown gaps in the research in terms of innovation on competitive advantage. S. Moghavvemi, et al (2012) he explained the impact of innovation on competitive advantage; the barriers and the benefits companies gain from adopting and using innovation and proposes a model with which it is possible to measure determinants of innovation adoption among SME. Moghli, et al (2012) he studied the relationship between innovation and competitive advantage in bank sector in Jordan. He mentioned that more research can be done on the relationship between innovation on competitive advantage in different sectors and Middle Eastern countries.

Considering fast changes in business environment, make it inevitable for companies to adapt themselves in order to survive and prosper. In other hand fierce competition summons to do it so in a different way than others to keep their competitive advantages. Grounded on the research gaps, it is apparent that in the current research it has been attempted to inspect if innovation contributes to competitive advantages of Iranian SMEs and innovation in which levels has more contribution to the competitive advantages and as a result on total performance.

4. Objective of Study

The overall objective of this research is to enhance understanding of the impact which innovation has on creating competitive advantages in companies to obtain a superior performance. It is intended to examine different possible levels of innovation to recognize that which one of them has more contribution to the SMEs competitive advantage. To sum up, the objectives are:

- a. To identify the factors of innovation affecting the competitive advantage.
- b. To analyze the role of the factors of innovation in enhancing competitive advantage in Iranian SMEs.

5. Research Questions

To achieve the research objective following questions are developed;

- a. What are the factors of innovation which are affecting the competitive advantage of Iranian SMEs?
- b. What is the role of the factors of innovation in enhancing competitive advantage in Iranian SMEs?

It has been tried to answer these questions through the research.

6. Justification of Study

Being largely dependent on natural resources, Iran's economy need to be diversified not only because of delectable nature of resources but also competition in today's world market rely on innovative and knowledge intensive products, which simultaneously enhances job opportunities. To switch to a more knowledge based economy it is not adequate to import and adjust technology but there should be attempts to enhance them and have some new innovative technology and speared them out. In order to promote capabilities in high technology fields, science and technology infrastructure and requirement of productive sector should be connected.

7. Research Framework

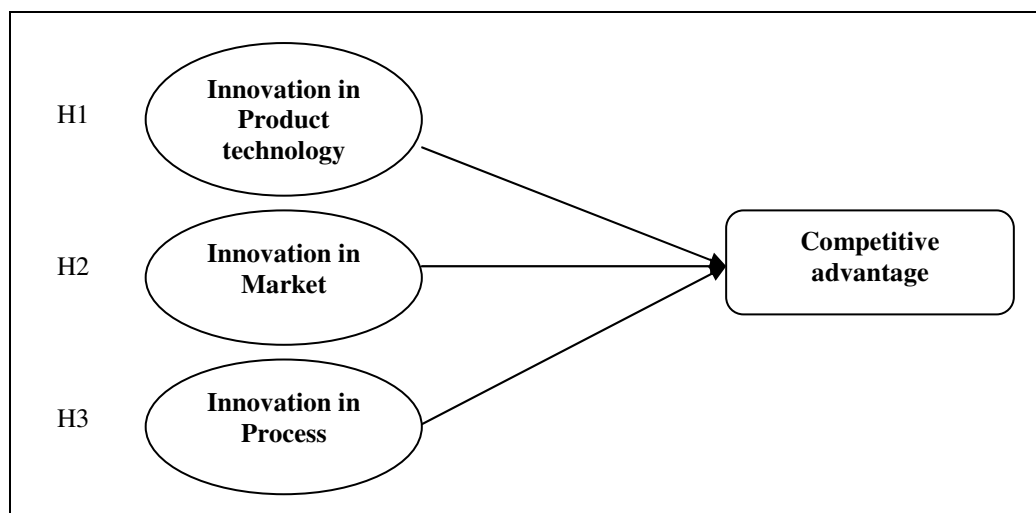


Figure 1

8. Hypothesis of Study

- H1: Innovation in product technology is a significant relationship with competitive advantage.
- H2: Innovation in market has a significant relationship with competitive advantage.
- H3: Innovation in process has a significant relationship with competitive advantage.
- H03: Innovation in process does not have a significant relationship with competitive advantage.

9. Research Methodology

The population in this research is Iranian Small and Medium sized Enterprises that the sample has been drawn from. The respondents are from different industries and they are selected randomly. The present study is based on 114 Small and Medium sized Iranian Enterprises as participants. In this study will be used of two types of data: primary data and secondary data. Questionnaire is chosen as a survey instrument. All extracted data from 114 questionnaires are entered into SPSS 17.

10. Conclusion

Since the research is conducted in Iran, it enhances our understanding from adopting innovation in different levels of Iranian SMEs. It shows that although innovation does not have too much contribution to competitive advantages, innovation in product technology, processes and resource have significant relationship with competitive advantage. It may have implication for companies which are starving for success, growth and sustainability. They can take advantage of opportunities by doing what others ignore to do. Pay more attention to innovation and its importance create competitive advantage which is already rare.

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