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## **INTEGRATING INNOVATION INTO BUSINESS STRATEGY IN THE CONTEXT OF A SERVICE-LED ECONOMY**

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### **Abstract**

The current socio - economic context is marked by a dynamic which force companies to find new ways to maximize profit and thus increase their performance. The search for competitive advantage has led to the recognition of innovation as a vital ingredient for survival and profitability. The context in which innovation is approached in this paper is related to the service – led economy. The presented results of the research highlight the particularities of the service innovation and offers some practical solution for integrating innovation into the business strategy. Service innovation should not be treated as a miraculous solution but it can be a revive way for regional organization giving value and promoting the emerging industries. The purpose of this paper is to open new research direction related to innovation and its implication in organization performance.

### **Keywords**

Innovation, integrating innnovation, service-led economy, business strategy

### **JEL Classification**

O30, O35, M21

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### **Introduction**

There is a great interest for innovation, both in the academic area and among practitioners, especially in today's globalized economy. If until three decades ago, almost every objective of an organization where approach from the economic efficiency point of view, nowadays the intense development of the human activities oblige companies to take into consideration other aspects related to their activity.

Even if in the current economic context, innovation is one of the most used terms, our past studies (Maier, 2017; Maier, 2014; Maier 2013) reveal that it is still not well understood especially due to its complexity and the multitude of specific characteristics of each activity sector. Innovation has been studied from different points of view and in a variety of contexts, like its relation to technology, marketing, social systems, economic development etc. Therefore the literature offers a wide range of approaches for innovation. The context

in which innovation is approached in this paper is related to the service – led economy. The research results presented in this paper highlight the particularities of the service innovation and offers some practical solution for integrating innovation into the business strategy.

### **1. Importance of innovation in the current economy**

Organizations survival and prosperity in a globally increasingly competitive environment is an intense subject addressed in the literature. The more intense competitiveness the more innovative companies are, due to continued momentum to remain on the market to come up with something new and thus to overcome competition. Researchers have tried to find solutions and methods to meet the new requirements imposed by economic globalization. In essence innovation seems to be a simple concept, but the variety of studies regarding innovation, have proven the complexity of innovation, thus the literature offer a variety of definitions for innovation, each researcher trying to capture better and more accurate the process of innovation.

The growing importance of innovation in the current economic context can be observed in the increasing number of scientific paper. A search in the most important scientific database in the world, ISI Web of Knowledge, by the word “innovation”, reveals that there are over 340 000 articles that deals with innovation. An interesting aspect in analyzing the total number of article published, about innovation, is that if we compare the total number of 167 888 articles published before 2010 (without articles published in 2010) with the number of articles published after 2010 (including articles published in 2010) which is 169 195 articles, it can be observed that in the last five years the articles involving innovation have already surpassed the total amount of articles published before 2010 (Maier, 2016).

The major importance of innovation leads to attempt to develop solutions for easier deployment within enterprises (Kasper, 2008). Finding solutions is a difficult process just because of the novelty and hardly predictable nature of innovation. Innovation is by definition creating something new, bringing added value or profit for the enterprise, in the same time innovation requires allocation of resources, both material and human, and the result of the innovative process is difficult to control or predict (Kotelnikov, 2009).

According to the well-known scientist Peter Drucker every organization - not just the business - needs a core competence: innovation. The concept of innovation defines in a synthetic way the introduction of the new. Actions with this purpose belong in human life not from yesterday or today, finding and introducing the new representing the main factors that determined the evolution of mankind throughout its entire existence (Leavy, 2010). Innovation was defined as the creative process by which new products, services or production processes are developed for a business unit (Garcia, 2002; Haider, 2004).

Innovation provides the mechanism for a company to grow faster, better and smarter than its competitors and may allow its direction (Oster, 2010). From the point of view of managers, the main purpose of innovation is to introduce change in the organization to create new opportunities or exploit existing ones (Wicks, 2004; Wu, 2008; Sisay, 2010).

### **2. Innovation in a service-led economy**

For this research we consider innovation in the context of a service-led economy. The importance of the service sector in the global economy is becoming more and more evident. According to (European Commission, 2012) the services and the services sector are having a more important impact on the economic growth having over two third of the workplace

and of the added value in E.U. In the same time the service industry cannot replace the manufacturing industry or solve the competitive problems.

The research objective of this paper is focused on the importance of innovation and its possibility to play a fundamental part in the business strategy of any organization. Some particularities for the service industry were taken into consideration without regarding the service sector as more important than the manufacturing sector or the technological innovation more important than the service innovation. In our vision all of them are vital for the global economy.

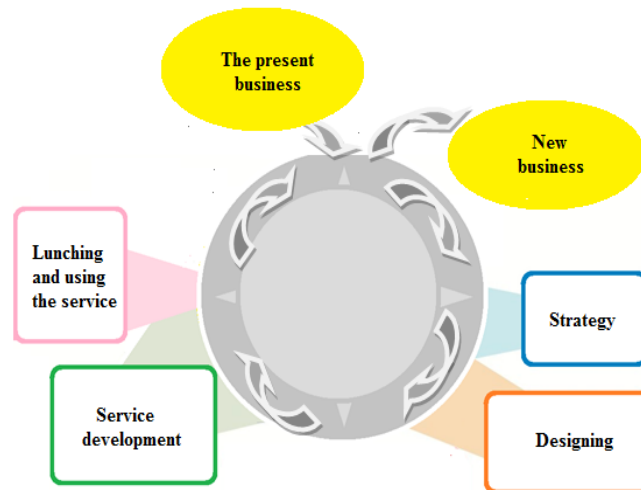
Innovation in services is an innovation process that has as main objective the customer satisfaction through better services which meet the client requirements and in this way he will want to pay for them. The end point of the innovation process is represented by using the service but in the same time it is the beginning of a new start for the innovation process.

The importance of innovation in services is first related to the fact that a better service can bring more earnings for the organization thus it has the power to influence the general economy being a growth factor. Another effect of the service innovation is that it influence the other type of innovation, is well known that one of the most used excuse not to innovate for organization is the lack of money. Its impact on small companies is more important because it can create a grow point for the organization.

The volume of information related to the service innovation in literature is much smaller than the one for product innovation. But several definition for service innovation can be found. At the European level exist a guide for service innovation. According to this guide (European Commission, 2012) the service innovation “comprises new or significantly improved service concepts and offerings as such, irrespective of whether they are introduced by service companies or manufacturing companies, as well as innovation in the service process, service infrastructure, customer processing, business models, commercialization (sales, marketing, delivery), service productivity and hybrid forms of innovation serving several user groups in different ways simultaneously”.

The guide offer another interesting concept relating to the service innovation “the transformative power of service innovation” which according to the same guide (European Commission, 2012) is “the process when services “disrupt traditional channels to market, business processes and models, to enhance significantly customer experience in a way which impacts upon the value chain as a whole”. This particularities of service innovation is once more another proof that innovation is not an easy process, it has a lot of unknowns and it is very hard to consider that a way is better than another one.

Bu still there are some aspects that if they are known can have a positive impact on the innovation success. Related to our research approach, in order to have a successful service innovation a series of activities must properly be adapted and applied. The steps of a good model of service innovation (fig. no. 1) can be: strategy formulation, designing, service development and the final step lunching and using the service.



**Figure no. 1: Model of service innovation**

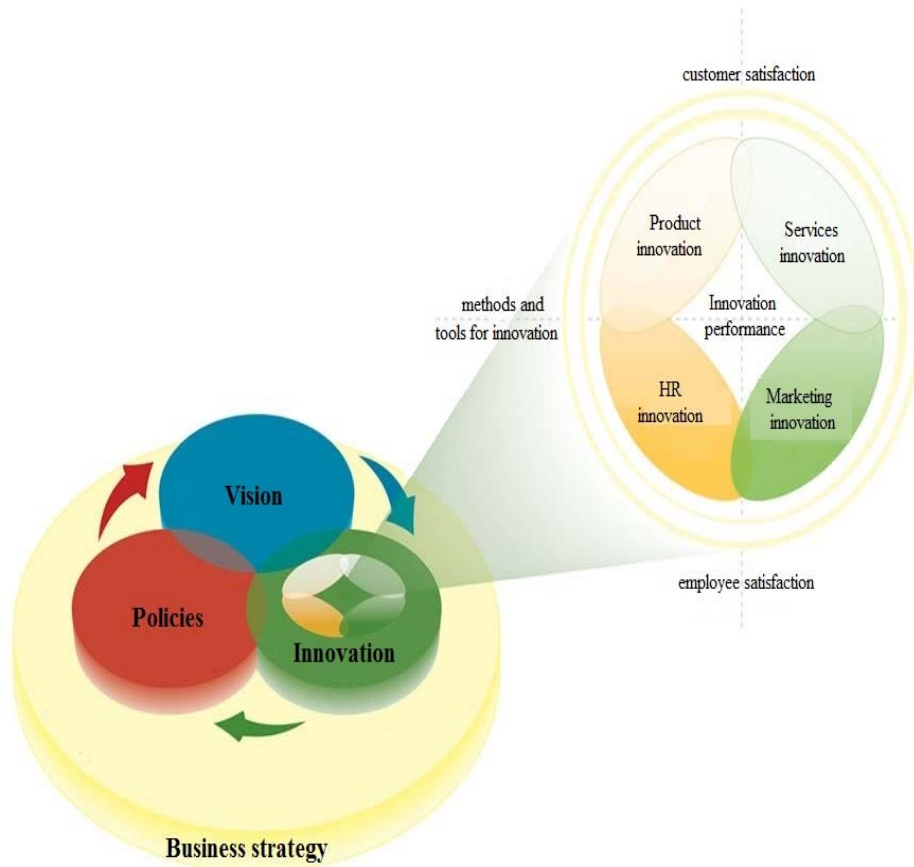
As it can be seen in figure 1, the main role of the innovation is to create something new, some new business that can bring added value for the organization. In case of service innovation the starting point for the service innovation process is the current business, then it is important to establish the strategy and the policy of the organization. After a clear strategy is implemented in the organization the design process of innovation can start, in this phase it is important to generate good ideas that can be transformed into innovations. The next two steps are related to developing the service and launching it to the market or the effective use of the innovation. The model is presented as a circular flow, this implies that after the innovation is used the innovation process starts once more from the beginning.

### 3. Integrating innovation in the business strategy

In the current harsh economic context is more and more evident that innovation is one of the best way to create a competitive advantage on the market. Being the best solution does not mean that it is the easiest one, but the first step is to include innovation in the organization business strategy.

There are numerous information in the literature related to the business strategy. According to (Wikibooks, 2014) business strategy is considered “the art, science, and craft of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives”. If we think about strategy in general it is just a coherent policy or behavior aimed at achieving a specific target or objective. A good strategy in an organization has the main advantage of clarifying its objectives and help it to focus and priorities the activities around them (Business Queensland, 2016). An organization must regularly define its strategy and specify how it is supported in the organization, what functions are involve.

All this are really good in theory but usually in practice the business strategy for organization are not well formulated. As we have seen in the previous chapters integrating innovation into the business strategy is not a priority for many organization. Our research purpose in this paper was to offer a possibility of integrating innovation into business strategy and we have materialized our research in the model presented in Fig. no 2.



**Figure no. 2: Model of integrating innovation into business strategy of an organization**

In the above figure we have tried to offer a detailed image of what aspects related to innovation must be taken into consideration if we want to integrate it with the vision and policy of the organization in order to have a successful business strategy. Even if the context of the research is related to the service-led economy, we did not limit the model just for service innovation, because almost all the aspects related to the innovation are the same for other innovation types. We will highlight the important points for the service innovation.

The model has three important aspects related to innovation: methods and tools for innovation, customer satisfaction, employee satisfaction. In the same time the customer satisfaction and the employee satisfaction can be the connecting point with the other parts of the business strategy, because the final scope of the organization activity is to respond to the customer needs and it can do this with the help of the employees.

Consider the context of our research we need to highlight the particularities of service innovation in the proposed model of integrating innovation in the business strategy. A first particularity is that for the service innovation the customer satisfaction is the most important part and it can make the difference between a good or bad innovation. Unlike the other innovation types the service innovation success is due to the willingness of the customer

to pay for that service. Another important particularity for service innovation is that there are some services that involves the implication of the employees in the offered service and in this situation the employee satisfaction is becoming very important for the success of the innovation.

A successful integration of innovation in the business strategy necessary implies development of an environment or a culture in the organization which will foster innovation. In the same time if innovation is not on the agenda of the top management it cannot be an effective innovation integration. The top manager must use the innovation performance metrics and in this way they can include the innovation in their normal pattern of business. The effect of considering innovation as an important point on their agenda will create an environment where employees are comfortable and challenged to participate in the innovation process.

### **Conclusions**

The purpose of this paper was to highlight the importance of innovation, to show the particularities of the service innovation and to offer a model that will help managers to integrate innovation in their business strategy. The importance and the need for innovation result from its contribution to enhancing the productivity, competitiveness, economic performance and social objectives. Companies need radical changes not only for products or services, but also for their business strategies.

There are several conclusions that can be drawn after analyzing the results of the research presented in this paper. One of the conclusion is that when dealing with innovation in services it involves a change of mentality and acceptance that innovation is not always a result of a research and development activities and that a research department can be in some situation inefficient in developing new strategy to enter the market. In the same time a strategy of focusing just on the service innovation is not a good solution because innovation can appear also in other areas such as processing field.

We cannot consider innovation in service as a miraculous solution but it has the potential to be a mechanism of reviving the regional economic structures, promoting emerging industries and also giving value to the existing ones. Introducing innovation in business strategy and making better use of service innovation is not a simple task it involve a vision and a new strategy but it an effort worth caring it out considering the potential reward for organizations.

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