
INNOVATIVE DEVELOPMENT AND FACTORS AFFECTING THE INNOVATIVE ACTIVITY OF SMALL AND MEDIUM-SIZED ENTERPRISES

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Abstract: Innovative development should mean targeted innovative activities to achieve an objective defined by the undertaking, leading to organizational and production change, and to increasing market opportunities and financial reserves of enterprise. Through innovative development, the company pursues its objectives such as increasing competitiveness, gaining more competitive advantages, creating new goods or services, gaining popularity among customers, etc. Growth is increasingly dependent on the degree of use of competitiveness engines, which is the innovation, products, added value and regional specialization of each country. Today, innovation is one of the key features of entrepreneurial behavior that are substantially linked to business competitiveness. Innovation is an essential element of global success in a economic. In this fast-changing world and carrying challenges and also favorable business opportunities, innovation can benefit from these changes and help to a significant degree business. Businesses need to introduce and create an increasingly competitive innovation, maintain high innovation performance as the economy becomes more dynamic and variable, and increases market impact on business. Small and medium-sized enterprises are the driving "figure" of the economy in each country. Innovations are at the heart of the company's development, as success depends on the actuality of the products and services the company offers on the rich market. To make the enterprise competitive, it must possess competitive advantages. Thanks to them the company manages to rise to its competitors on the market. Competitive advantages are the specific characteristics that highlight the product from the others and give it a higher competitiveness. Small and medium-sized enterprises are more innovative enterprises, compared to large companies, because in order to succeed on the market they have to apply creativity, character and creativity. Innovation is the main driver of economic growth. It also brings more benefits to society. Ideas and discoveries improve the standard of living. Innovation can also lead to a better standard of safety, better healthcare, better quality products, and products and services that are better for the environment. Innovations increase the productivity of enterprises more than the generation of generations and substantially change lifestyles and all aspects of life. Small and medium-sized enterprises occupy a significant share of the economic activities in Bulgaria. They are 99.8% of the total number of enterprises and this corresponds to the European Union average. After the crisis in Bulgaria the balance between micro and small enterprises is changing. The number of micro-enterprises was increased and in 2011 it was 92%, about half of which consisted of one person. Small businesses are struc, which is more resilient in crisis conditions, but they are decreasing, and for 2011, 7.2%. The transition of medium-sized enterprises to small and small to micro enterprises continues. Large companies in Bulgaria maintain their relative share of about 0.2%-0.3% of all enterprises, which provides enough opportunities for partnership with tens of thousands of small and medium-sized enterprises.

Keywords: Factors, development, innovation, competitive advantages, competitiveness, enterprise

1. INTRODUCTION

The long-term growth of each economy is determined by its ability to renew itself, i.e. to convert knowledge into economic result, according to Chobanova.¹⁵¹ "Refresh or Die"-with this article title in the magazine. "Economist" Peter Drucker¹⁵² gives the shortest definition of the meaning of the problem "renovation" for modern economic development. It is evidenced by the fact that in developed countries half of the growth in gross domestic product (GDP) is the result of innovation and this share is increasing in increasing the intensity of creation and use of new knowledge in the economy.¹⁵³ The problem arises for the renovation of the national economy of small countries that are not among the leaders in the global economy, a problem that is not solved in both theoretical and practical terms. It is important to point out that through innovation, companies are able to achieve a better competitiveness for others in the industry and, as is known, competitiveness is manifested through competitive advantages. Competitive advantages are extremely time-consuming features of the entity or factors of the external environment that provide the enterprise with superiority over competitors in the particular market over the period considered. Based on the

¹⁵¹ Chobanova R., *Economics of knowledge and innovation – state and main problems*, Economic Institute of the Bulgarian Academic of Sciences

¹⁵² Drucker, P. *Innovate or Die*. - The Economist, September 25th – October 1st, 1999

¹⁵³ OECD. *A new economy? The changing role of innovation and information technology in growth*. Paris, (2000)

study of the bibliographic sources on competition and competitiveness, it can be established that competition is studied at three levels – at the level of a product, at the level of an enterprise, and at the level of an economy. It is worth noting that each of these levels is directly related to the other two levels, i.e. every change of competitiveness at each of these levels shall inevitably affect the other two, either positively or negatively.¹⁵⁴

2. THE ORGANISATIONAL ACTIVITY OF ENTERPRISES FOR THE CREATION OF INNOVATIONS.

"A number of studies have come to the conclusion that small and medium-sized enterprises are creating, at the early stages of their development, more significant innovations than large established companies"¹⁵⁵, according to the Ireland. At the heart of this is the entrepreneurial behavior of small and medium-sized enterprises, which in order to deliver value on the market applies creative approach and innovation in meeting the needs and solving the problems of consumers. Small and medium-sized enterprises should therefore use creative and innovative techniques as a source of competitive advantage. Small and medium-sized enterprises should focus on the formulation and implementation of strategies that can benefit from their benefits, stemming from their smaller size. The most frequently cited advantages in this regard are narrow product specialization, a clearer defined and geographically limited market segment. The survival of the business depends on building a reliable business architecture that ensures the generation of cash flows by applying new business models as a result of creative and creative thinking. Marketing and innovation are crucial for a transition to sustainability in business. Today we live in an era of challenges, in which companies move to the next level of development, becoming part of the technological environment in which history only write fast and adaptable to change.¹⁵⁶ Moreover, the simplicity of the organizational structure of small and medium-sized enterprises allows their entrepreneurs and managers to carry out close daily contact with staff, effective communication, high speed of strategic decision making and realization of changes, which is a prerequisite for a more successful business. The SMEs use innovation as a strategic, system and technology lever to develop flexible innovative cultures, responsible business management processes and global ecosystems. This ensures that their employees develop creative credibility; Self-confidence and belief, the ability to invent creative ideas, and the courage to try and co-operate to influence the desired changes in the world around them.¹⁵⁷ "Competitive advantages are the basis for developing an effective strategy and, for its part, a successful strategy is one that leads to the acquisition and preservation of competitive advantages."¹⁵⁸ Competitiveness, apart researches, is characterized by a new factor – the distribution. Revenues from sales were invested in researches for new pharmaceutical products.¹⁵⁹ The ultimate goal of the strategic management process is to lead the company to choose and implement a strategy that will provide the company with a competitive advantage. This also applies to small and medium-sized enterprises, which need a strategy to gain a competitive advantage and achieve high financial and economic performance. "A number of studies show that companies with a well-formulated strategy achieve better results than companies without a strategy"¹⁶⁰, says Miller.

Small and medium-sized enterprises should focus on the formulation and implementation of strategies that can reap the benefits of their advantages, stemming from their smaller size. The most commonly quoted advantages in this regard are narrow product specialization, a clearer defined and geographically limited market segment.

From a macroeconomic point of view, the innovation system can be decomposed at three levels, expressing three subsystems: an innovator (a person or a group of individuals engaged in innovative activities); an organization in

¹⁵⁴ Logodashki, N. *Competition and Competitiveness – general theoretical concepts*, Blagoevgrad, Bulgaria, Available:http://ep.swu.bg/images/pdfarticles/2019/COMPETITION_AND_COMPETITIVENESS_GENERAL.pdf, (2019).

¹⁵⁵ Ireland, R. D., & Hitt, M. A. and D. G. S. „*A model of strategic entrepreneurship: The construct and its dimensions*”. *Journal of Management*, (2003)

¹⁵⁶ Zlateva, D. *Creative solutions in online marketing*, in: *The Age of Creativity*, publ. Vanguard Prima, Sofia, Bulgaria (2017),

¹⁵⁷ Stavrova, E & Zlateva, D., Pinelova, L. & Vladov, R. *Improving The Competitiveness Of Smes By Fostering And Promotion Of Non-Technological Innovations*, *Macedonian International Journal of Marketing*, year 4, No 7, p.97, Available at: <http://bit.ly/2N6eUmU> [Accessed 17 Feb 2019] (2018)

¹⁵⁸ Analoui, F. & A. Karami. *Strategic Management in small and Medium Enterprises*. Thomson Learning, (2003)

¹⁵⁹ Nedelcheva, Y. *Competitiveness in the pharmaceutical industry: a historical overview*, Blagoevgrad, Bulgaria, Available:http://ep.swu.bg/images/pdfarticles/2019/COMPETITIVENESS_IN_THE_PHARMACEUTICAL_INDUSTRY.pdf, (2019)

¹⁶⁰ Miller, C. C. & L. B. Cardinal. „*Strategic planning and firm performance: a synthesis of more than two decades*”. *Academy of Management Journal*, vol. 37, (1994).

which the innovator works and an organization's environment (social, economic, political). Combining these levels with the variables related to the elements structure and processes in the system, the following matrix is obtained. (Table No. 1)¹⁶¹

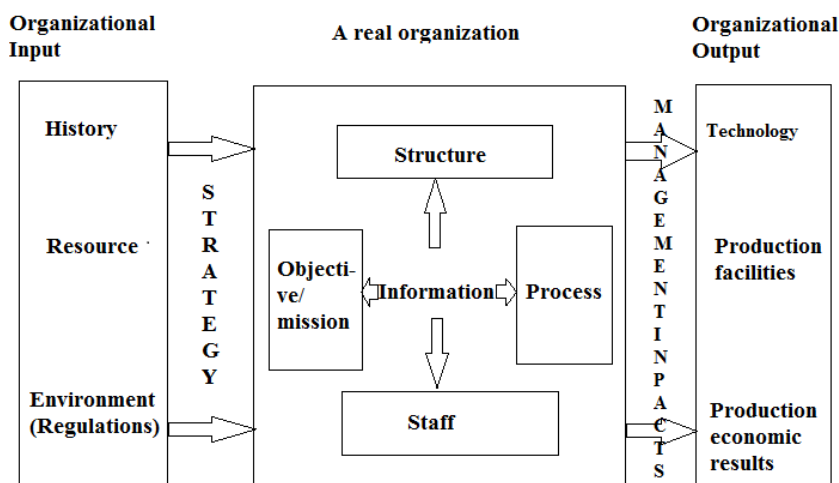
Table №1. Components of the innovation system

Subsystem.	Variables related to the elements.	Variables related to the structure.	Variables related to processes.
<i>Innovator</i>	a) input/output	b) Interaction between innovators;	c) Innovation activities *
<i>Organization</i>	d) resource	e) Organizational characteristics;	f) Organizational steps
<i>Environment</i>	g) resource	h) Characteristics of the environment;	i) Measures relating to the environment

Source: Innovation and Efficiency, op. cit., p.21

At the heart of every innovative company policy is the link between its main components: "External environment – goals – strategy – organization – structure – technology – realization and marketing – analysis and control". Information support for companies is the most important factor while making efficient management decision.¹⁶² In particular, the innovation strategy is based on the following main groups of components: material, technical, labor, information and financial component. The interconnection and correlation between these components may be represented by the organizational model of the business organization given in figure No1.¹⁶³

Figure №1. Organizational model of a business organization



Source: Nenov, T. 2010. Innovation management, Science and Economics publishing house, Varna, Bulgaria p.140

¹⁶¹ *Innovation and Efficiency*, RR-81-7, 1981. International Institute for Applied Systems Analysis, Laxenburg, Austria

¹⁶² Filipova, M. & Zlateva, D., *Improving competitive advantage of the company through information services and support*, In: *Current problems of competitiveness improvement in national economies and enterprises*, Niš, (2012)

¹⁶³ Nenov, T. *Innovation management*, Science and Economics publishing house, Varna, Bulgaria (2010).

3. FACTORS INFLUENCING THE INNOVATIVE DEVELOPMENT OF ENTERPRISES.

Karolova and Varmezov divide the factors influencing the innovative development of the enterprises in the following four groups: technical-economic; legal - normative; organizational and managerial; socio-psychological. Their view of the impact of these factors on the innovative development of enterprises is structured in the following way:¹⁶⁴

- Technical - economic factors:
 - **Stimulating influence** - availability of material-technical and financial potential; stimulation of innovation activity; Orientation towards the use of the latest technological advances;
 - **Foreclosure** – insufficiently developed technical base and potential; Shortage of funds and financing of risky projects; the current production.
- Legal - Normative factors:
 - **Stimulating influence** - legislative measures for preferences and stimulation of innovation activity;
 - **Foreclosure** - restrictions or indifference of tax, patent and anti-monopoly legislation
- Organizational and managerial factors:
 - **Stimulating influence** - appropriate and flexible organizational-management structures; Democratic style of government; Decentralization, autonomy, formation of problem groups, team organization, etc. A disciplinary approach to teamwork; voluntary participation; an appropriate system of remuneration; Support from senior management.
 - **Foreclosure Influence** - conservatism of organizational structures; Excessive centralization; Departmental prison; to a short - term return on innovation.
- Socio - psychological factors:
 - **Stimulating influence** - providing conditions for self-realization and creativity; Moral encouragements; public recognition, etc.; tolerant attitude to failures; favorably attitude towards new ideas, trials and mistakes;
 - **Foreclosure** – resistance to change; Fear of uncertainty and failure; Large financial risk

Taking into account the particular importance of innovation for the growth and competitiveness of the European economy, the European Union has raised an important goal – closely linking research, education and innovation, i.e. "putting into action" the Triangle of Knowledge – research, education, innovation, which means creating new knowledge through research, their transfer through education and their implementation through innovation.¹⁶⁵ At the same time, an important means to achieve the objectives of innovation development are the accompanying initiatives "Innovation Union", "Youth on the move", initiatives to introduce a single indicator to measure the results of innovation, as well as the financial program (under the Horizon 2020 Program), the digital agenda, the recommendations for the widespread use of public-private partnerships and pre-trade orders, etc. These flagship initiatives "set out the main objectives and elements of the modernized European science and innovation policy."¹⁶⁶

4. CONCLUSION

In summary, as a conclusion of the report, the innovation activity of enterprises is the factors that determine the characteristics of the innovative product of economic operators. Innovation activity in complex concept, based on quantitative and qualitative indicators, determining the parameters and characteristics of product innovations generated as a result of innovation activity in the company's business. The measurement of innovation activity is based on two main elements, such as the type of innovation carried out and the degree of novelty of innovative solutions. Innovative companies that have introduced a new or improved product, service or process differ from the others on the market, in that they demonstrate that they are ready to change, effectively interact with the external environment, have human resources with high innovation adaptability, create a creative atmosphere of work, are able to develop and train, market oriented, manage to increase their financial reserves, achieve results with long - term effect.

¹⁶⁴ Varmezov, L. *Innovation Management*, Svishtov, Bulgaria (2013)/ Karolova, T. *Innovations and innovative development*, university publ. "N. Rilski", Blagoevgrad, Bulgaria(2003)

¹⁶⁵ Agov, A. & A. Germini, A. B. et al. *Innovative European, National and Regional Policy*, Foundation for Applied Research and Communication, Sofia, Bulgaria, (2008).

¹⁶⁶ Innovation BG, Bulgaria's *Innovation Potential: Opportunities and Challenges*, publ. Applied Research and Communications Foundation, Sofia, Bulgaria, (2012).

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