

## **CASE STUDY: THE IMPACT OF INNOVATION PROCESS ON TURNOVER OF GEO – TOPO COMPANY**

**Drienovski Kristina – Jana**

*West University of Timișoara*

*Faculty of Economics and Business Administration*

*This paper presents a case study of the impact of innovation process on the turnover of the GEO - TOPO company in order to highlight the existence of less convenient situations where innovation costs are not included in income made by the company. Thru this study the paperwork highlights the importance of company's turnover despite the fact that this indicator is one that presents past performances. Most of the existing literature presents positive aspects of the innovation process, and for the future decisions recommends economic forecast. There are studies showing the risks of the innovation process, including the possibility of bankruptcy of the company due to the failure of the innovation process, but this work represents a practical reality, a point of arrival for the past research and a starting point for the future theories. Bibliographic documentation and research of the enterprises documents were the basis of confirmation for theories regarding the risks of innovation process and an anchor for issuing statements about the negative impact of innovation process on turnover. The results obtained in this study show the importance of turnover in future decisions of the enterprise in order to support an possible and immediate failure. This study has its limitation, because it refers to the result of a service provider SME that has introduced a process of organizational innovation. The results are accurate, this work is part of a broader research regarding the impact of innovation process on companies economic and financial performance. This research supports the entrepreneur in decisions making, comes as a backup plan to avoid bankruptcy, and proposes a closer connection between the marketing department and the accounting in an enterprise. In businesses that have outsourced accounting services, this study provides contractor necessary information for a correct decision without the need for a detailed explanation of the accounts and positions balance sheet.*

**Keywords:** *turnover, innovation, SME, economic analysis, performance*

**JEL classification:** *M41, O31*

### **Introduction**

The innovation process represent a very important subject in a world which is under constant change. Productivity and the performance of the innovative activity of the European countries has been left beefing its global competitors in the last decades. (Hashi and Stojčić 2012: 353 - 360). Hashi and Stojčić (2012) through their work represent one of the first attempts at comparing determining factors of the innovative process in the mature economical markets of the Western European countries and of the transition economies of the Central and Eastern Europe that have joined the EU as the last.

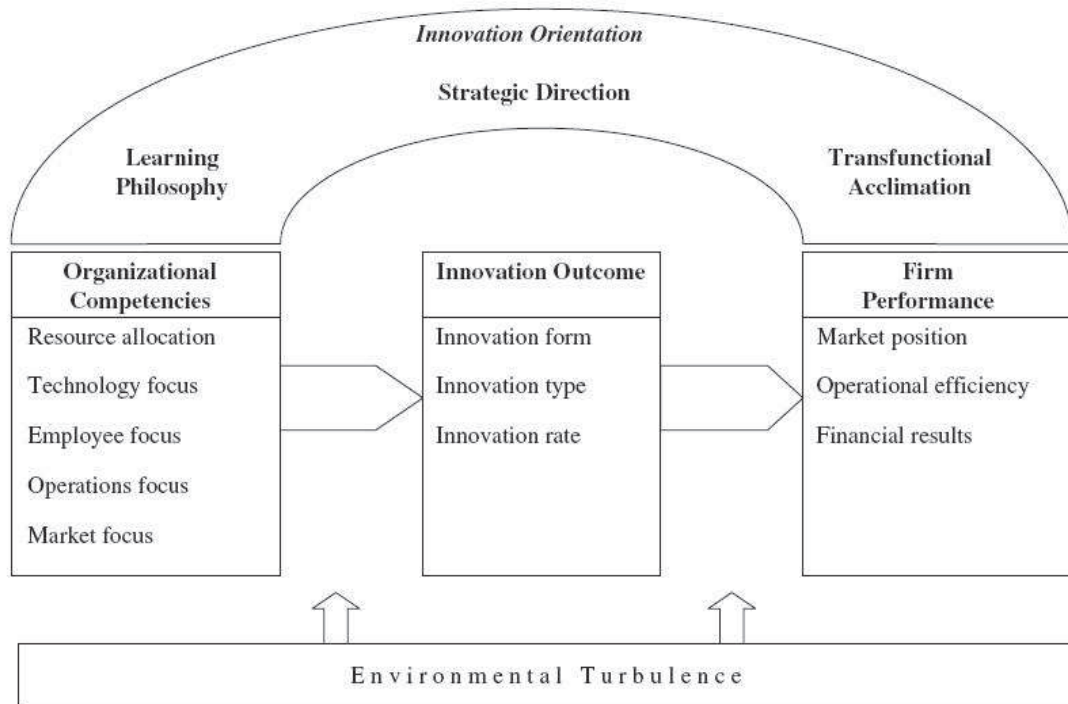
Entrepreneurial orientation can be considered a set of processes, practices, philosophies and decision making activities that lead societies towards innovation (Madhoushi, Sadati, Mahdivand and Mihandost, 2011: 313-315). The literatures states that entrepreneurial activities have a direct effect on the process of innovation.

The chosen field of study represents an interesting subject both for entrepreneurs and for researchers, because this topic represents and applicative research on the process of innovation and shows the risk of failure with which the entrepreneurs can come in contact.

This work analyses the economic and financial implications of the introduction in the GEO – TOPO S.R.L. company of the whose object is represented by the implementation and certification of the quality management and of environment, according to SR EN ISO 9001:2008 și SR EN ISO 14001:2005. Through the economic and financial analysis performed for this work identifies the effect of the innovation process had on the performance of the company, shows the existence of a perfect moment and a bad moment for innovation, which need to be taken into consideration by the entrepreneurs when making a decision. Through rational, logical and scientific explanations this work brings an idea, but without making false expectations, that by selecting innovation you can succeed even though sometimes you need to perform extra work.

### Literature review:

The literature from this field presents a series of variables from which the entrepreneurial orientation depends: the entrepreneurial performance, strategic planning, control over personnel, management of human resources, providing adequate opportunities for the creativity of the employees and their motivation, level of education, organizational position, age and professional experience, psychological characteristics and managerial abilities, social capital, politics and national culture. (Maatofi și Tajeddini, 2011:22). The orientation towards innovation represents an ensemble of beliefs and understandings that lead to a large spectra of action of the company and resulting in competences that activate innovation in the company. (Siguaw, Simpson și Enz 2006: 561)



**Figure 1: The model of orientation towards innovation.**

**Source:** Siguaw Judy A., Simpson Penny M., Enz Cathy A., (2006), "Conceptualizing Innovation Orientation: A Framework for Study and Integration of Innovation Research" in *The Journal of Product Innovation Management*, nr. 23, page 561

The learning philosophy defined as an universal ensemble of organizational understandings on knowledge, rationale, assimilation, transfer and the use of knowledge

in the company (Siguaw, Simpson și Enz 2006:561) can be extended up to the acceptance of possible results and of the possible renewal of the wasted resources.

The strategic direction represents the concepts of business of companies that are oriented to innovation, positioned to the future and captured in strategic beliefs that define who is the company and how are the activities corroborated in it to ensure that innovation happens under the time and form of the strategic direction. (Siguaw, Simpson și Enz 2006:561). The existing researches in the field support the idea that the strategic direction as a part of the orientation towards innovation completes the entrepreneurial orientation and that both encourage strategies that lead to the creation of new ideas and facilitate the proactive positioning and competitively aggressive.

The trans-functional acclimatization represents an unique ensemble of structures and principles that determine activities and behaviors and are integrated in every functional part of the company (Siguaw, Simpson și Enz, 2006:561).

The improvement of the company performance represents the scope of the economic activities performed by the entrepreneur and the innovation process represents the meant through which this scope is achieved, but, it is not possible to discuss the performance of the company and its evaluation without defining the term of efficiency and effectiveness. The presentation of efficiency as the report between the achieved result and the effort through meant and used resources and the use of the term „traditional” and „modern” is increasingly comment in literature with specifying the financial indicators are the traditional ones and the nonfinancial indicators are the modern ones (Radu și Țaicu 2009: 132 -134). Gruian (2010: 245) to explain the term efficiency of a company uses in his work terms like productivity, effectiveness , that offer the company the attribute „competitive” and ensures this its presence on the market. In these conditions, defines performance as a „special result that comes from the field of managements, economic, commercial etc., which implies effectiveness and competitiveness of companies and the process and structural behaviors”.

Iyer, Srivastava, Rawwas (2014:56) consider that the performance of the company need to be analyzed on the operational level, because the first impact is shown on this level. The value and dynamics of the actives represents and advantage. The conclusion of the three researchers on the improvement of the operational performance of the company refers mostly on the improvement of the capacity for cooperation of the company with the exterior.

3 orientations of the term performance can be distinguished based on the level of realization of its strategic objectives, creation of value and productivity and effectiveness of the company and sustain the subjective feeling of the term performance of the company materialized when the objectives are reached, despite the major objective of the maximization of the property of the investors (Stancu, Stancu, Oproiu 2013:25).

### **Research Methodology**

At elaborating this paper was used documentary research, applicative research and the developmental research . In the documentary research was used the bibliographic research from online scientific databases. Were investigated and analyzes accounting documents provided by the company such as the annual financial statements, the balance sheet and the project to of access funds in order to implement innovation. Applied research, based on information from documentary research was conducted on the financial statements of the company in financial exercises subsequent years : 2009, 2010, 2011 . It was chosen this period of three years, because it is a short-term study of the effects of innovation process on the main economic and financial indicators of GEO - TOPO company. As base period was chosen in 2009 , the year preceding the year in which the innovation process has been completed. As a final research year was elected 2011, the year following the year in which the innovation process has been completed.

As a result of research – documentation and applied research, has raised the question whether there is an opportune time to make the decision to innovate in terms of financial performance of the company leaving room for further research on forecasting the ideal time for innovation.

### The research results

Company's turnover is the most stable operating indicator. Literature presents the financial indicators as easily manipulated by the chosen policies and thus can easily reach an incorrect assessment of reality. So, the way how chosen accounting policies and accounting treatments of various economic situations are depend on the design and calculation of the main targets (Cheng 2012: 155). Turnover represents the value of sold goods value of provided services and a distortion of this indicator means tax evasion and in this case here stops the economic processes and enters in application the criminal law. The GEO – TOPO company and the Ministry of Small and Medium sized Enterprises, Commerce and Business Environment has signed an financing contract for project from European Fund for Regional Development trough Operational Sectorial Program "Increase of Economic Competitiveness" – Priority Axis 1 - „Innovative and eco-efficient production system", from the field of 1.1 „Productive investments and the preparation for the market competition, especially in SME's". Total value of project is 51.170,00 lei. The object of the project is the implementation and certification of quality and environment management system according to EN ISO 9001:2008 and EN ISO 14001:2005. The investment in organizational innovation was performed in order to increase profits. Although profit growth can be achieved both due to lower costs and to the reduction in income or combined, the optimal solution chosen by the enterprise chosen was to increase revenue and decreasing the costs, because the company has hired.

### Analysis of turnover dynamics

No	Indicators	2009	2010	2011	$\bar{R}(\%)$
1	Current turnover (lei)	423.586	506.848	445.747	+7,6
2	Prices index (services) (%)	-	111	107	-
3	Corrected turnover through deflating (lei)	423.586	456.619,82	375.302,69	-5,00
4	Corrected turnover through inflating (lei)	503.093,09	562.601,28	445.747	-4,47

Form data presented in the upper table it can be seen, that in current values the turnover has made an insignificant grow of 7,6%. Over the past three years the price increase due to inflation affects the real growth of turnover. By correcting turnover in order to eliminate the effect of inflation (by deflating or inflating) it can be observed that the real growth in turnover is negative, which affected all economic indicators - financial of the enterprise. Thus, it can be seen that in the following year in which the innovation was made, objective of the implemented process has not been achieved.

Critical turnover (lei)		
2009	2010	2011
351.023,49	411.900,43	433.324,75

Through the analysis of turnover and critical turnover, in 2011 critical has the closest value to realized turnover.

At first glance it is seen that the effect of innovation process on turnover is not the one that has been expected, so that in 2011, when the enterprise should supposed to be fully

enjoying the benefits of introduced innovation, its business turnover decreases. From a detailed analysis of the internal processes of the company, the introduction of an enterprise's organizational innovations requires also the adaptation of existing staff to new work processes and procedures and new organizing. The discussions with the owner of the enterprise, having as a basis the model of orientation towards innovation presented above it can be concluded that to reduce shock waves produced by the organizational change through the introduction of organizational innovation, the optimum time to innovate it's the time in which, the turnover and profits can suffer setbacks, but without affecting the existence of the company. In this enterprise organizational innovation process was implemented when the turnover has achieved a high value and business could afford to support its decline. In service companies, in which the human factor is the main mode to achieve revenue and in which occurs organizational changes through introducing organizational innovations, the failure or the success depends heavily on the staff resilience and the customers and external collaborators capacity to receptivity to new.

### Conclusions

Through this study is intended to bring closer the accountant to the manager in order to act for the best interest of the entrepreneur. This study presents the least enjoyable part of the innovation process, namely the fact in which the amounts of invested money in the implementation of the innovation process are not to be found in the company's performance, i.e. expenditures are not generating revenue in the near future. Choosing the optimal moment in taking decision to innovate is a very important factor that can make the difference between business continuity and bankruptcy. Because performance indicators are indicators of past enterprise performance, in choosing the optimal moment for innovation should take into account the past situation, and be born the question: "How long can the past support a less productive future?" This study contributes to the increasing of importance of enterprises past in actions of present and future without trying to minimize the value that economic forecasts has in decision-making process or to dramatize the risk of failure of the innovation process. This study has its limitations because the applied research has been performed on a SME in the service sector, where human capital cannot be controlled and reprogrammed in order to bring immediate benefit to the company.

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