THE IMPACT OF INNOVATION ON FIRM SUSTAINABLE COMPETITIVE ADVANTAGE IN SME FROM THE WEST REGION OF ROMANIA

Cristian-Dan BIRIS

Management and Entrepreneurship Department, Faculty of Economics and Business Administration, West University of Timişoara - Timişoara, România cristian.biris97@e-uvt.ro

Abstract: This study investigates the influence of product, service and process innovation on a company's competitive advantage. The study was conducted at small and medium-sized enterprises level from the Western Region of Romania. This research is structured in 5 parts: 1) an introduction illustrating the general context of the business environment in the Western Region of Romania and the opportunity to conduct this type of research; 2) a literature review illustrating the state of knowledge and other similar research conducted on this topic; 3) description of the methodological process of conducting empirical research by using the questionnaire as a method of collecting data from the regional business environment; 4) analysis and discussion based on empirical research following the aspects identified by applying the partial least squares structural equation modeling (PLS-SEM) method; 5) conclusions. This study comes to complement a series of previous studies both at national and international level, which aimed to research the impact of innovation on the competitiveness of SMEs. The results of the current research have highlighted the importance of process innovations, respectively product or service innovations, on obtaining sustainable competitive advantage by small and medium-sized enterprises in the Western Region of Romania, more precisely in Timis, Arad. Hunedoara and Caras-Severin counties. Moreover, the results of this study can be used both by general managers of companies, by entrepreneurs and last but not least by public policy makers with a direct role in stimulating the regional competitiveness of the business environment.

Keywords: product innovation; process innovation, service innovation, business competitiveness, sustainable competitive advantage

JEL Classification: M10, M20, O31

1. Introduction

In today's economy, innovation is a necessity for a firm to achieve long-term competitiveness. The rapid and frequent changes in terms of applied technologies and practices used in the international ecosystem also manifest their effects on the regional business environment, which must be constantly adapted.

Small and medium-sized enterprises play a crucial role in the economic development of the areas in which they operate, as they create jobs, contribute to gross domestic product and help reduce the risk of poverty. However, a very important aspect is

given by their need to remain competitive for as long as possible in order to ensure the continuity of their activities. Thus, obtaining competitive advantage for a company is a primary condition. At national level, it has been identified that continuous investment and innovation are two variables of radical importance in ensuring the competitiveness of small and medium-sized enterprises (Botezatu, Gherghina, Hosszu, & Simionescu, 2020). Currently, in Romania, small and medium-sized enterprises finance their activity mainly from their own funds and bank loans (Căpşuneanu, și alții, 2018), which often hampers their ability to innovate, due to the lack of internal resources and the difficulty of obtaining external sources (bank loans or government / european grants) (Oncioiu, 2012). A period of many challenges for them was in the years preceding the economic crisis of 2008, when SMEs that successfully overcame that period were focused on innovation (Szabo, 2011). However, an identified problem is the lack of entrepreneurship and the development of new businesses stimulation by the national culture (Brancu, Gligor, & Munteanu, 2012).

From a Western Romania perspective, there was an increase in the number of SMEs from 47,951 in 2016 to 56,530 in 2020 (Chirescu & Pătărlăgeanu, 2022). However, the increase in the number of SMEs in terms of quantity must be correlated with a qualitative increase in their business practices in order to have continuity within the regional business ecosystem. In this respect, there has been a trend towards the integration of SMEs into global supply chains, an increase in competitiveness as a result of the integration of business practices in the European area and an integration of rural and urban spaces from a production perspective in order to achieve regional competitiveness (Popescu, 2018).

2. Literature review

2.1. Product/service innovation and process innovation

The prospects of product or service innovation and process innovation have been intensely debated in the literature. The two types of innovation are the basis of a firm's competitiveness, without which it could not survive the competitive economic environment of the XXI century. The knowledge economy and the information economy are the pillars on which innovation is underpinned at firm level, but not only from a product innovation perspective, but rather from an operational and strategic process innovation perspective. An important aspect in the innovation activity of a company is given by its degree of openness to the external environment and its absorbive capacity. In the current economy, the orientation of companies towards the external environment, to absorb good practices models, is imperative to ensure sustainable development (Fang & Lewis, 2012).

Within the literature there are a number of matrices and models that describe innovation from a temporal point of view. Pavitt&Tidd (2011) presents innovation as consisting of five successive stages, namely creativity, selection, incubation, implementation and lifelong learning (Pavitt & Tidd, 2011).

The innovation process from the urban policymakers perspective was covered by Nilssen (2019) which identified four areas of innovation application – technological, organisational, collaborative and experimental (Nilssen, 2019).

Depending on the object of innovation, there are two main categories: (Huang, 2012)

- Process innovation changing processes across an organization, whether aimed at developing an existing product in other ways. This type of innovation aims to improve the added value of the organization. In the scientific literature, this topic was covered from the perspective of the study conducted at the level of innovation from an organizational point of view (César & Villar-López, 2014), updating new management systems at organizational level viewed from the perspective of a process innovation (Bernardo, 2014) and researching process innovations in correlation with the performance of a business organization (Rajapathirana & Hui, 2017).
- Product or service innovation aims to develop new products or services so
 that a firm can differentiate its offer from other firms on the market. At the
 literature level, this topic was covered from the perspective of analyzing
 companies' capabilities for service innovation (Den Hertog, Aa, & Wietze,
 2010) researching the ecological dimension in developing new products
 (Dangelico & Pujari, 2010), studying new methods of product innovations
 diffusion (Muller, Peres, & Vijay, 2010) and correlating big data technologies
 to facilitate service innovations (Kao, Lee, & Yang, 2014).

In a national study, it was identified that Romania has an insufficient infrastructure, which generates innovative potential problems and which in turn limits the demand and supply of various innovative items (Prokop & Stejskal, 2017). Moreover, in addition to the previous study, comes a research at the level of smart cities in Romania that concludes that only some of them promote initiatives to support and promote innovation at urban level (Butnariu, 2021).

From a regional perspective, it was identified that innovations and training facilitated to employees are directly correlated with the total profit and profit per employee within the SMEs included in the study from South-West Oltenia Region (a neighboring region for West Region) (Burlea-Schiopoiu & Mihai, 2019). In the West Region, the strategic directions related to innovation are coordinated by the West Regional Development Agency and involve increasing the innovative potential from the perspective of human resources, developing a coordination matrix for innovation and last but not least promoting innovation at regional level (Enache & Morozan, 2013).

2.2. Competitiveness

Regional competitiveness is a highly important determinant at regional and urban level as it has a direct influence on all other determinants. For gaining competitive advantage at urban area level, that region must have organizations with long-term competitive advantage.

Competitiveness can be studied at several levels – at individual level (the employee), at the microeconomic level (the company) and at macroeconomic level (the entire business environment). In this research, we will refer to the microeconomic competitiveness of companies. The microeconomic intermediate level aims for competitiveness at company level. A general definition of a firm's competitiveness was laid out by Buckley and Pass (1988): "A firm is competitive if it can offer goods and services at a higher quality and at a lower cost than competitors at home or globally." From a pragmatic perspective, the notion of company competitiveness is measured in terms of profitability, low costs and high quality for customers. At this

level, the company's potential is generated both by the individual competitiveness of each employee and owners/entrepreneurs on the one hand, and by the external market context on the other hand (Buckley & Pass, 1988).

Dereli (2015) covered the perspective of competition between different economic entities in the context of innovation and competitiveness. The need to differentiate the company's offer from that of competitors within the urban economic ecosystem. leads to the intensification of companies' efforts to innovate. Thus, each innovation made by a company, whether it is at product / service level or at process level within the company, leads to an increase in competition on that market niche (Dereli, 2015). Inclusive growth is a concept that directly impacts the competitiveness of an urban area, Neagu&Teodoru (2018) presents the positive aspects that inclusive growth brings to competitiveness, such as sustainability, social inclusion, citizen empowerment and security. Economic growth in the context of competitiveness must be sustained in the long term in order to be present across all sectors and industries at urban level. The inclusive dimension targets particularly the working population, as well as disadvantaged people, with the aim of integrating them into productive economic areas at urban level. Integration can be achieved by eliminating institutional bottlenecks and implicitly increasing the chances of all people to career growth and development opportunities. By empowering and involving citizens in the process of economic growth, an urban environment focused on competitiveness is created. Last but not least, eliminating social risks has a decisive role in ensuring the security of all citizens and, implicitly, urban safety, with benefits for the economic environment (Neagu & Teodoru, 2018).

From a company's business strategy perspective, it was identified that a strategy based on competitiveness ensures the company's long-term competitive advantage, in correlation with skills development, innovative ideas and entrepreneurial thinking (Ali & Anwar, 2021). In addition to the perspective of business strategy, comes an article that deals with the importance of a product's brand competitiveness over the competitive advantage of a company (Foroudi, Gupta, Gallear, & Rudd, 2020). Moreover, the researches on competitive intelligence highlights the importance of managing data to gain competitive advantage (Umair, Wu, & Yan, 2023).

2.3. The influence of product/service and process innovation capabilities on the sustainable competitive advantage of a company

The analysis of the correlation between product or service innovation, respectively the process innovation on the competitive advantage of a company was carried out from multiple points of view, depending on the objectives of that research. Thus, it was identified that innovative performance has a direct influence on the competitive advantage of a company, mediated by the market performance of that company. Innovative performance referred to both process innovations (organizational in this case) and product innovations (Alpkan, Gunday, Kilic, & Ulusoy, 2011). The direct and positive correlation of an SME's market orientation and product innovation on competitive advantage has also been demonstrated in the context of organisational performance (Arafah, Herman, & Hady, 2022). Next, another article that refers at the same time to organizational process, product and service innovation highlights the positive and direct impact of multiple types of innovation on business efficiency, quality of products and services and ultimately the competitive advantage of the respective company (Distanont & Khongmalai, 2020). In addition for the 2 studies

mentioned above, comes one study conducted by Ali et al. (2022), which identifies a direct and positive correlation between process, marketing and service innovation on the ability to create competitive advantage by a company (Ali, ElSoad, Mohammed, & Soliman, 2022).

Dogan (2016) identified a positive and direct impact of a company's technological innovation capacity on its competitive advantage (Dogan, 2016), while the direct correlation between a company's performance and its competitiveness was researched using radical and incremental innovation (product and process) as intermediate variables in the process of researching and so it has been demonstrated the correlation between the two variables (Chau, 2017). In a research based on innovation capabilities, conducted at small and medium-sized companies level in Portugal, it was identified that innovation capabilities lead to performance and competitive advantage at organizational level (Coelho, Ferreira, & Moutinho, 2020).

The management of the innovative process in correlation with competitiveness was studied by Dereli (2015) who noticed the importance of an efficient management of the innovative process for a company to obtain and maintain competitive advantage in the long run (Dereli, 2015).

Thus, as a result of the aspects set out in the previous paragraphs, the following two hypotheses are formulated:

H1. There is a direct and positive correlation between the process innovation capabilities of an SME and its ability to generate sustainable competitive advantage

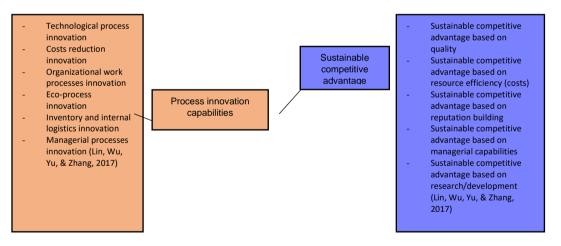


Figure no. 1 - Correlation between process innovation capabilities and sustainable competitive advantage

Source: Elaborated by the author

H2. There is a direct and positive correlation between the product/service innovation capabilities of an SME and its ability to generate sustainable competitive advantage

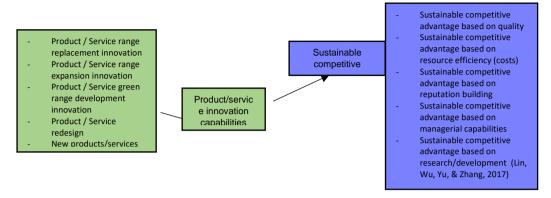


Figure no. 2- Correlation between product/service innovation capabilities and sustainable competitive advantage

Source: Elaborated by the author

The model of the present research is the one illustrated in Figure no. 3.

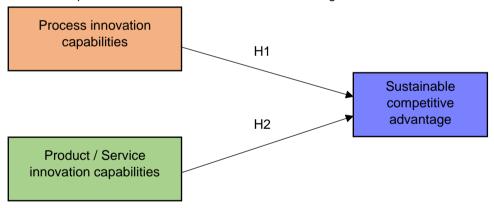


Figure no. 3 – Research model Source: Elaborated by the author

3. Methodology

The methodology adopted to carry out this empirical research is quantitative, using the questionnaire as a data collection tool. PLS-SEM was chosen as the main data analysis approach for this research, due to the fact that it has a high statistical power and high efficiency in estimating parameters, which makes it more likely to predict and justify specific relationships between the analyzed constructs and items. The statistical application used to process the data was SmartPLS.

The questionnaire was applied exclusively to small and medium-sized enterprises from the urban areas of the four counties in the Western Region of Romania – Timis, Arad, Hunedoara and Caras-Severin. The questionnaire was sent to 1200 companies from various fields of activity such as production, trade, construction and real estate development, IT and software and consulting Finally, 247 responses to it were obtained, being a suitable sample in correlation with the number of items at the level of this research. This questionnaire was intended exclusively for general managers and department managers of SMEs, given that it was intended to facilitate a concrete managerial perspective on this topic.

4. Results and discussion

4.1. Analysis of the reliability of the research model

Analysis of validity of the research model will be carried out using the following indicators - Cronbach's Alpha, AVE, Composite Reability and Outer loadings.

Table 1 – Analysis of the validity of the research model

Latent variable	Observable variable	Observable variable acronym	Cronbach's Alpha	AVE	Composite Reability	Outer loadings
Process innovation capabilities	Technological process innovation	Prl – T	0,902	0,674	0,905	0,870
	Costs reduction innovation	Prl - CR				0,773
	Organizational work processes innovation	Prl – WP				0,746
	Eco-process innovation	Prl – E				0,821
	Inventory and internal logistics innovation	Prl – SL				0,849
	Managerial processes innovation	Prl - MP				0,858
Product/service innovation capabilities	Product / Service range replacement innovation	PSI - C	0,867	0,654	0,875	0,851
	Product / Service range expansion innovation	PSI – E				0,748
	Product / Service green range development innovation	PSI – Ec				0,746
	Product / Service Redesign	PSI – R				0,836
	New products/services development speed	PSI – S				0,856
Sustainable competitive advantage	Sustainable competitive advantage based on quality	SCA – Q	0,879	0,676	0,885	0,885
	Sustainable competitive advantage based on resource efficiency (costs)	SCA – E				0,758
	Sustainable competitive advantage based on reputation building	SCA – R				0,841
	Sustainable competitive advantage based on managerial capabilities	SCA – M				0,761
	Sustainable competitive advantage based on research/development	SCA - RD				0,858

Source: Elaborated by the author

As a result of the analysis carried out on the reliability of the research model, it is found that at the level of Cronbach's Alpha coefficient and at the level of Compound Reliability there are values that are above the threshold of 0.7 established to be compliant from the scientific literature point of view, with values of 0.902 and 0.905 for Process Innovation Capabilities; values of 0.867 and 0.875 respectively for product/service innovation capabilities, and last but not least 0.879 and 0.885 respectively for sustainable competitive advantage (Dennick & Tavakol, 2011).

As regards the convergent validity of this research model, values above the literature threshold of 0.5 are found for all three variables, namely 0.674 for process innovation capabilities, 0.654 for product/service innovation capabilities and 0.676 for sustainable competitive advantage. (Shrestha, 2021)

Last but not least, the loads of indicators related to the 16 items in this research are above the accepted threshold of 0.7 (Hair, Ringle, & Sarstedt, 2012). The highest loads for process innovation capabilities are those related to technological and ecological process innovation, managerial processes and inventory management and internal logistics related innovation, with values above 0.8, while for product/service innovation capabilities are those related to innovation through range extension, redesigning products and services and those related to increasing the development speed of new products and services. Last but not least, the items with the highest load for sustainable competitive advantage were the ones related to quality, reputation building and research and development.

With the help of the above mentioned aspects, we have a broad perspective on the increased degree of coherence and validity of this research model, for all of the constructs and their related items.

4.2. Testing research hypotheses

Given that the research model has been validated, the analysis proceeds further towards testing the research hypotheses. The table below illustrates the p-value, together with the estimated values of the track coefficients related to the two research hypotheses.

Table no. 2 – Testing research hypotheses

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Hypothesis	Track coefficient values	P value	Result					
Process innovation capabilities → Sustainable competitive advantage	.389	.002	Confirmed					
Product/service innovation capabilities → Sustainable competitive advantage	.508	.000	Confirmed					

Source: Elaborated by the author

As it can be seen, both of this research hypotheses have been confirmed, as they have a p value lower than the maximum value accepted of 0.05 (Andrade, 2019). Thus, this research highlights that SMEs in the Western Region of Romania base their competitiveness at business level through a series of specific activities based on process or product/service innovations. So, it can be seen that the company's activities oriented towards innovation in order to improve technological processes,

reduce costs, reorganize work and managerial processes, improve inventory management and internal logistics, as well as those related to products or services based on replacing, expanding and greening the product/service range, redesigning and increasing the speed of their development have led these SMEs to obtain a competitive advantage.

Sustainable competitiveness in this study was seen from the perspective of a sustainable competitive advantage based on research and development activities, managerial capabilities, reputation, resource efficiency, as well as the quality of products or services offered by a particular SME.

Although both types of innovation confer sustainable competitive advantage for a company, it is important to note that product or service innovations have a greater impact on the competitive advantage gained by an SME, according to the analysis (.508 for product/service innovations and .389 for process innovations).

The higher impact of product or service innovations on the competitiveness of an SME can be justified by the need for companies to constantly innovate at products and services they offer to the end client in the turbulent business environment (Arafah, Hady, & Herman, 2018). In this way, SMEs retain their existing customer portfolio and even more, continuously attract others, in order to achieve sustainability of competitive advantage and ultimately organizational performance.

5. Conclusions

The objective of this research was to analyze the impact of process innovation on the one hand and product/service innovation on the other hand on the sustainable competitive advantage at SME level in the West Region of Romania. The result of the analysis confirmed the two hypotheses at the level of this research, namely that process and product/service innovations have a direct and positive impact on the sustainable competitive advantage of a company. The limitations of research are represented by the general perspective on product/service and process innovation, without taking into account their radical or incremental nature, an important aspect in the literature(Acemoglu, Akcigit, & Celik, 2022)(Coccia, 2016).

Regarding future research directions, they may concern, on one hand, an analysis carried out at the level of the other seven development regions, as well as an analysis of the impact of SMEs' competitive advantage on regional competitive advantage, taking into account the mediating effect of institutions with a direct role in the development of the region.

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