

STIMULATION OF INNOVATIVE PROCESSES IN MODERN BUSINESS

© 2008 Y.P. Soboleva*

Key words: cooperation, integration, innovation, competitive advantages, innovation activity, subcontracting, outsourcing.

The aim of the article is to discover the essence of integration transformation in the domestic industry on the basis of implementing innovative processes. The approach to the problem consists in the analysis of interaction of domestic enterprises and working out some practical recommendations for their further development. The key results of the research consist in the given model of stimulation of innovative processes introduction in modern economy.

Until lately it has been important to consolidate companies in different ways and forms. Since 2001 large industrial organizations that lost their former power with the collapse of the Soviet Union have been regaining it by affiliating their subsidiaries, merging with small and middle businesses and creating large business structures, integrated both vertically and horizontally. As a result clusters, trusts, consortiums and other large industrial formations emerged. In most cases the branches of such formations ended up losing their legal independence. The idea of creating large integrated formations was often forced from the top. In practice most of such formations were unable to meet the competition and by now they have come to realize the necessity for their restructuring. Currently the enterprises are facing two possible choices: either further disintegration or finding ways to raise their competitive advantages that in their turn will raise the economic potential of a business entity. Disintegration can be regarded as a way of focusing the efforts on key business processes. However, the transfer from a large business structure to a middle business may cause considerable difficulties like breach of partnerships, major key assets loss and decreased financial autonomy as a result of the increased need for various kinds of loans to finance the development. Moreover, the access to foreign markets can also be closed for a certain period of time until the company gets over the crisis caused by changing its market niche and its status. The other way to overcome the crisis is to search for competitive advantages without changing the company structure. This way can be considered as the “mild-

est” one. A possible direction for this process might be turning to cooperation its current forms as a basis for re-orientation towards the development key business directions. This approach leads to the company dismissing non-strategic business units and developing those that give the most profit and have more competitive advantages.

This way of development can be supplemented by searching for competitive advantages without any cardinal changes in the company structure (integration of innovative processes in the company).

The notion of innovation and innovative activities has been thoroughly studied in the specialist literature. In this research we understand innovations as a combination of all measures aimed at creating, acquiring, mastering and distributing new and improved products, technologies, services, raw materials and methods of organizing production and management. This approach to the concept of innovations includes both technological and organizational measures introduced at industrial enterprises.

The economic state of industrial enterprises including integrated formations can be stabilized by means of transfer to the innovative way of development. This is achieved through implementing the results of scientific research and development in the sphere of cutting-edge technology, manufacturing high-tech products and innovating the sphere of service.

As a solution to the problem it is advised to create an authority within the integrated formation that will be responsible for stimulating the process of creating the new product from developing an idea to its realization and marketing.

* Soboleva Yulia Pavlovna, Candidate of Economics, Associate Professor of Orel State University of Economics and Trade.

Evaluation of factors that hinder business activity of companies, % of the total number of companies

Factor	Year						
	2000	2001	2002	2003	2004	2005	2006
Lack of capital funds	74	69	65	61	56	42	41
Unstable economic situation in the country	36	29	24	23	20	21	20
Absence of necessary equipment	19	20	19	19	18	30	30
High level of competition from foreign companies	11	12	15	16	17	22	25
Lack of demand for the company's products in Russia	36	37	44	44	43	51	48
Lack of demand for the company's products abroad	11	12	14	13	13	19	19

To fully realize the innovative potential the organization needs at least capital resources. Let us analyze the key factors hindering business activity of a company (see table) ¹.

As you can see from the analysis above, the main problem leading to low business activity of domestic enterprises results from the lack of demand for their products in the domestic market. This problem can only be solved by transfer to the innovative way of development when the products and services will be able to meet the competition.

The lack of capital funds of the enterprises is also an important issue but its specific weight in the total of the surveyed enterprises has decreased considerably since the year of 2000 (41% against 74%).

At the first steps of integrating innovation processes in an industrial enterprise it is suggested to establish a sort of a specific market-oriented authority focusing on managing, distributing and implementing technologies.

To achieve the main goal the authority can be assigned specific tasks like maintaining the balanced flow of funds to support its own existence for a prolonged period of time. To complete the task it is necessary to consider designing new products and ways of development. Average employees with good operational experience and creative way of thinking can make a contribution to this activity. Teams of average employees engaged in the activity must be lead by specialists in the field who have the understanding of business issues and are trusted in business circles.

Another task aimed at achieving the main goal set to the authority can be connected with technologies transfer. The realization of the project must be completed within a competitive branch or a unit of the enterprise. Thus its viability and possibility of further implementa-

tion within the enterprise is either proved or disproved. Beside authentic solutions it is possible to use the ones from abroad with the aim of adapting it to the specified enterprise. This realization tool is universal and widely used in the day-to-day practice of domestic and foreign companies. This process will encourage the creation of innovation distribution chain that ends with the final implementation of the new activity within the enterprise. It can be either creating new sorts of activities or developing new products, new customer service models, implementing new technologies, etc.

The specified method is applicable for industrial giants that have reached its peak of development and are currently enjoying stable profit margins so they could prevent potential decline of their organization structure by transferring to the innovative way of development. Structural revision means turning to well-known cooperation in its contemporary forms of outsourcing and subcontracting.

Outsourcing implies turning the key processes from inefficient, competition-hindering into those that might allow the company achieve considerable competitive advantages. The executives will have to cooperate with their partners in outsourcing to develop new ways of creating value through modified processes, technologies and with the help of people.

The reasons to outsource are quite simple. Among them there is lowering the costs due to the temporary basis of services; increasing the quality by using high-level fully-qualified professionals; focusing own assets on key business goals, lowering the costs of outsourced functions; getting access to the resources the company doesn't have; access to cutting-edge technologies; reliability; delegating the responsibility for fulfilling the specified function².

Using specialist companies' services can be the best solution to the problems for the enterprise and will as well save its time and funds, because:

- ◆ the enterprise can focus on its main activity; предприятие может сконцентрироваться на своей основной деятельности;
- ◆ it is now possible to avoid large-scale investment into motor car park and warehouses;
- ◆ the saved funds can be transferred into operating assets;
- ◆ the financial indices of the enterprise are improving;
- ◆ the decisions on seasonal manufacturing and distribution changes are made more easily;
- ◆ the risks from operating in new markets are lowered;
- ◆ the enterprise comes to realize the actual logistics costs.

Specialist firms are better and cheaper than their clients in operating the commodities flow but the client organizations have advantages in other spheres. Outsourcing allows the company to focus on its key activity. Besides, specialist outsourcer companies have more profound knowledge of logistics. Specialist firms have many clients and it allows them to use their motor car park more effectively by optimizing the loading of homeward voyages. These companies have their own warehouse network where the client can store their goods thus eliminating the problem of traveling to the client's warehouses in case of necessity. However the main advantage of specialist firms lies in their ability to plan the routes and organize vehicle serials which is impossible for most client companies sometimes due to the lack of finance.

Subcontracting is a modern and effective way of organizing industrial production. It is based on interaction between large and small industrial enterprises at all stages of production cycle on the principles of long-term commitment, stability, high level of mutual responsibility and mutual trust between partners. Relationships based on subcontracting allow enterprises to reach high levels of efficiency due to rational management of existing production resources.

The chances of success in such new forms of relationships are often higher owing to establishing additional connections, for example, when the contractor organizes the delivery of some particular raw materials, sophisticated equipment or press-forms and also provides

technical aid to the subcontractor, organizes training, gives them the necessary know-how and licensed rights and in some cases even signs the agreement on partnership in running the enterprise or in investment projects. As a result traditional relationships based on subcontracting gradually turn into a competent partnership.

The effect of introducing production cooperation is synergetic and is defined by total production costs savings per unit of production achieved by bringing in specialist partners. Implementing various forms of production cooperation can give the partners economic advantages not only by lowering end product costs with the help of bringing in specialist partners. The benefits of using cooperative partnership in modern production are also determined by the specific role of cooperation as a "new production force" created by combining several forces in one body. Alone even the most powerful company cannot solve all the bunch of problems connected with design and development of a principally new product on tight schedule at the current level of technical progress. Such tasks can be completed faster and more effectively by way of combining two or three specialist firms that can concentrate their efforts taking into account their production, scientific and technical potential as well. For many small and medium enterprises involved in cooperation as subcontractors there is substantial outcome in the form of long-term production facilities exploitation and stable long-term distribution of the manufactured goods. Large businesses have an opportunity to increase productivity.

Earlier the system of subcontracting was regarded only as a means of reducing production costs. Involving subcontractors was often more useful than maintaining internal production. At present the executives while making a decision on involving subcontractors take into account not only evaluating the costs but also strategic development of the company.

The biggest advantage of involving subcontractors is relatively low costs of services and utilities supplied by small and medium enterprises because their overheads are lower. Buying utilities on the tender basis allows to significantly reduce costs on every position and thus leads to lowering net costs of finished commodities. Besides there appears an opportunity to reduce capital investment on the means

of production, save some financial resources cut down management staff and labor force.

The contractor has the ability to optimize the usage of resources and pay special attention to developing new technologies, manufacturing technically complex and high technology produce, working out new distribution channels, etc. Delegating manufacturing components and parts to other enterprises involved as subcontractors allows the contractor to build a more effective and productive organization structure.

As a rule the role of subcontractors is given to small and medium enterprises. In Russia, however, it is quite common to use large enterprises that have idle production facilities or economically independent workshops of large enterprises as subcontractors. Narrow specialization allows these enterprises to supply high quality goods on economically beneficial terms in due compliance with the technical requirements of the contractor.

Moreover, small enterprises often act as contractors themselves ordering manufacturing of components, parts, execution of production processes (e.g. thermal treatment of goods) to be able to fulfill a large order.

Including a large contractor enterprise in the supply chain during the whole production cycle is a matter of highest priority for subcontractors. Cooperation of this sort becomes possible if working with large contractor enterprises that have facilities for mass and long-run production. In this case the supply of subcontracted goods is fulfilled on schedule by the parties. For contractor enterprises with single and short-run production subcontracting means finding necessary materials and components of required quality in the shortest possible time.

Narrow specialization combined with permanent employment provides subcontracting enterprises that manufacture components intensive usage, fast amortization and renewal of their equipment. In some cases subcontractors get the equipment, the technological appliances and devices, control gear and instrumentation as well as aid in standardization and quality assessment necessary to fulfill the order from the contractor.

The main advantage of modern forms of cooperation is the opportunity to focus resources and effort on the sectors that define competitive potential of the product and the whole enterprise³.

Having optimized its organizational structure and focused its efforts on key businesses

an integrated formation must consolidate around stimulating the innovative potential..

The given model of stimulating innovative potential of the enterprises by means of creating a special authority responsible for development, transfer and implementation of innovations can be very effective for strategic alliances. This form of cooperation between enterprises means coordination of efforts for all involved in strategic planning and management. Its structural elements (the enterprises) are legally independent. There is no centralized management there. The authority responsible for transfer of innovations can manage the created formation directly. Independence of the enterprises-participants of the alliance will encourage the emergence of new innovative projects and give the authority the freedom to function within the boundaries of its key activities.

Innovation can be the result of introducing a new technology, using a new application, the development of new markets and new forms of organization. Technology-driven innovation gives only short-term output. Unless there is profound work on its perfection, on increasing productivity the effect of these innovations is annihilated very fast. Creating a single authority with the aim of introducing innovation within the strategic alliance will encourage constant growth of activities range and scale of the very system of enterprises in this alliance. Consolidation and cooperation might help to share high costs and risks connected with introducing innovations. Cooperation within a strategic alliance increases the abilities of each enterprise to get the necessary information on new technologies, methods of creating new technologies and on the ways technologies can affect the existing business. Due to increased cooperation between small and large enterprises by means of using innovative potential of the first and resources of the latter higher flexibility and efficiency of the formation.

¹ Evaluation of the factors that hinder the activity of basic organizations [Internet source]/Federal Department of State Statistics. Access mode: <http://www.gks.ru>. Capture from the screen.

² Industrial cooperation in small and middle businesses. [Internet source]. Access mode: <http://www.dist-cons.ru/modules/PromCoop/index.html>. Capture from the screen.

³ The state and perspectives of industrial cooperation and specialization development in machine-building complex of Sverdlovsk region [Internet source]. Access mode: <http://www.center.ekt.ru>. Capture from the screen.