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Innovation - a Challenge for the 21st Century Managers

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Abstract

The knowledge based economy entails more and more the intangible assets as a main tendency in the actual times. In the new economy, what counts is the model of thinking and the creation, which represent the key of the competition. The property of the ideas and the way one turns to advantage the economic potential of these, are the factors that bear more and more upon the future of the organizations and of companies, and this is also the one that gives the competitive advantage on the market. In this paper we have as a purpose framing the importance of innovation within the organizations, the problems that the managers confront during this process and also to present an evaluation model of the intangible assets in order to meet the organizations that need financing. © 2015 The Authors. Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license

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1. Introduction

Innovation is considered to be a vision, a concept, a strategy but also a solution. In this context we can assume that innovation projects in order to become a fact and to achieve their purpose need an idea that helps reaching a certain aim either economic, social or organizational.

Perceived in most of the cases as an exclusive concept, innovation can be approached only by some companies. This thing should be changed because innovation is accessible and comes in hand for everyone. What leads to a successful innovation are the good ideas, the process and the best assigned resources. But there must be paid a lot of attention and elaboration when we are making the selection of the good ideas. Even if the intuition is spirit's

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component for a leader, it must be oriented towards a well designed process. When the process is well based and defined, and the organization is capable of heading the creativity of the stakeholders on generating new and valuable ideas, their performance is rising and the rate of success becomes better.

In the technical- economic literature, innovation is defined as the change-over of the potential technical- scientific progress into a real one, under the circumstances of the new products or technologies. The term “innovation” comes from the latin word “inovatis” (in- in, novatis- new), what in translation would mean innovating, new, change. Innovation is the equivalent for news, something that has no precedent. In the specific literature, the term of innovation has various definitions and it is dealt with under many aspects, taking shape in two tendencies: when innovation is presented as a result of a creative process under the aspect of production and new technique, technologies and high-performance methods or as an implementing method of the new elements, aspects and principles by replacing the already existing ones.

The notion of “innovation” from the economic point of view was analyzed for the first time, by the Austrian scientist J. Schumpeter in the first decade of the 20th century. In his work “theory of economic Development”, innovation is defined as “the totality of changes having as a purpose the implementation and usage of the new types of products, means of production and transport, outlet markets and forms of organization of the production process”. In the framework of innovation, as it is defined by Schumpeter, it is recognized to be fitted five types of activities, naming: 1) the creation of a new product, 2) introducing a new method of manufacture, 3) entering on a new outlet market (or creating a new one), 4) using a new raw material 5) a new structure of the company. Lately, according to Joseph Alois Schumpeter (1934) it can be admitted the existence of the sixth activity: the creation of a new image for the company. According to the beliefs of Schumpeter innovation represents the main source for the profit. He states that, in essence, the profit is the result of a new combination, and without development there is no profit and vice versa, without profit there is no development. Another definition that states very well the role of innovation in the technical- economic activity is the one of Peter Drucker. In his vision, Drucker (2006), “innovation is the specific tool of an enterprising manager, the mean through which he exploits the change as an opportunity for various businesses or services”. According to the opinion of the Russian experts, innovation represents “the result of creation and assimilation of the new products or modified products which satisfy practical social needs and generates economical, technical- scientific, social and ecological effects”; or “the profitable using of the inventions objectified through new technologies, types of production, organizational- technical with productive, financial, trading feature. In the field of macroeconomics, by the studies of Nikolai Kondratieff (1892- 1938), are described the connections between innovation and “conjectural cycles”. According to him the long phases of development/ increase are based on profound and periodic (economic cycles of about 60 years) innovations. More than that, according to Michael Burnam- Fink (2011), it is foreseen the passing from the “informational society” to the “knowledge society”, the beginning of a new Kondratieff cycle, which provides new areas of increasing, where the new knowledge become the main competitive factor.

The systemic description methodology of innovation, according to the economic conditions of outlet market is based on international standards. In the international standards, included in the Frascati Manual of OECD, it is made known a topical definition of innovation. According to the instruction, the innovation is “the final result of the innovation activity as a new or improved product which can be put on the market; a new or modern made technological process that can be practical used, and also a new approach for the social services”.

The definition which is accepted now by the European Commission sees the innovation as “the conversion of the new knowledge into economic and social benefits, as a result of the interaction between various subjects of a system that includes companies, research institutions and financiers in a local, national or international frame”.

The Romanian legislation deals with innovation from two different aspects: innovation- as a product; a new function or improving the functionality of a product, process or service, in any field, and which could or can answer to the market demand or which could generate a new demand from the market; innovation- as a process: the activity that allows the apparition of innovation- as a product- and which is based on an individual, social, on the company, creative and dynamic behavior. This activity also includes the research - development.

2. Innovation in Romania

Being considered one of the “modest innovators” (see fig. 1), Romania is among the countries with the weakest performances in what concerns the innovation, according to the data provided by the European Commission in the analysis of Innovation Union Scoreboard 2014. Romania is a “modest” nation from the innovation perspective, being on the antepenultimate rank, behind Poland and in front of Lithuania and Bulgaria.

The European Commission for the accomplishment of this study took has taken into consideration various factors, expenses for research, development in companies and also to the governmental level, number of students, doctorates, or registered patents- for the most of these we are below the average of the European Union; the most recent study indicates an increasing in the number of doctorates, and in the number of patents and community trade mark and a decreasing on the level of companies’ expenses in what regards the innovation and also to the level of the investments approached.

In this context, there is a need for increasing the number of innovative companies and enterprises which should activate on the Romanian market.

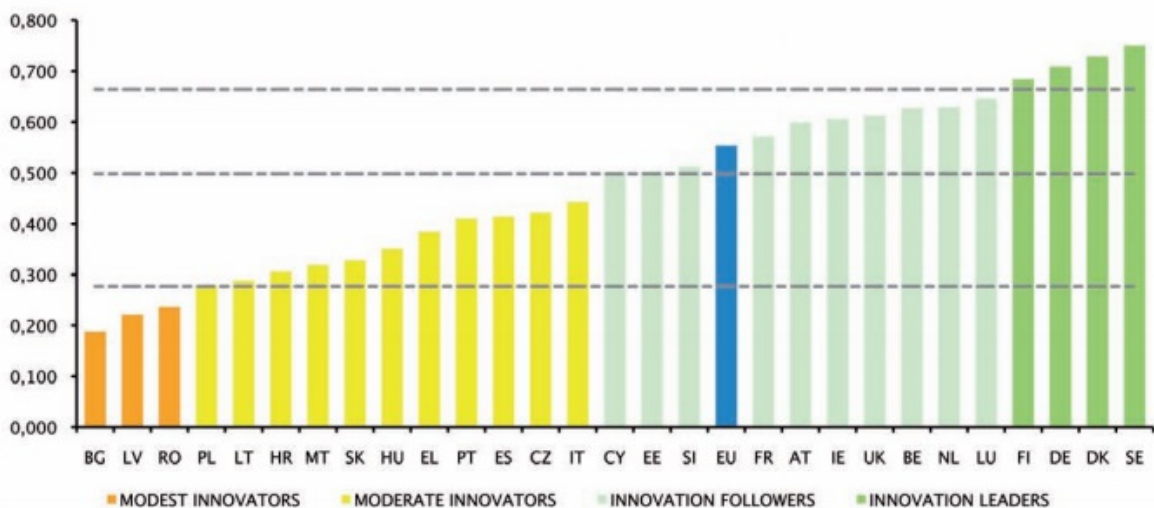


Fig. 1. Innovation performance in EU Member States
Source: Innovation Union Scoreboard 2014

Even if the macroeconomics innovation signs put Romania at the bottom of the ranking from the point of view of innovative countries, the projects for innovation begin to be more and more present in the economic agenda and also in the micro and macroeconomics agenda. For supporting these actions, the innovation was placed in the centre of the EU strategy regarding the economic increasing and developing new jobs. In this context the member states of EU are encouraged to invest 3% of the GNP in research and development until 2020 (1% of public funds and 2% from private investments), which is estimated to generate 3.7 million of new jobs and would increase the GNP with 800 billions of euro per year.

But, beyond the numbers, the research and innovation are the ones that improve the livelihood and the conditions of employment, improve the competition in Europe, it stimulates the economic increase and creates new jobs.

Passing to a new era of innovation, which will be changed to the most important driver of increasing, after the industry, distribution or information, represents a necessity and Romania in order to resist in a globalized world and in an always changing Europe, not necessarily in a good way needs to step out from the cheap workforce or out of the social help and use the native intelligence of the nation.

Taking into consideration the fact that the European Union is a main actor in the scientific and technological worldwide scene and an indisputable leader in many fields such as energy from renewable resources and

environmental protection, efforts must be made for maintaining this position and for facing the international competition which is more and more bitter in the field of research and of technological production.

In this context the future of Europe is linked to its capacity for innovation, for converting the great ideas into products and services that would lead to economic increase and new jobs. The initiative “A Union for innovation”- EU strategy for promoting of this process- proposes to create an environment where Europe to be able to encourage new ideas.

Finding solutions to the challenges of the society, stimulating at the same time the increasing and the competition, there is needed a perfectly functional excellence network in research and transposing into practice the innovative ideas.

To the level of the Romanian companies there are some phenomena which rise above the others in what regards the innovation and the lack of the innovation strategy agenda, but there are also multinationals recognized internationally for being innovative and activated mainly on our market without having a well established strategy on this subject. This situation still became improved by the acquisition of some successful companies which have been integrated in multinational groups and so innovation cells have been developed.

Of course, the specificity of the market and the diversity of the existent tendencies on the various economic fields leaded in time the need for innovation concerning the personalization, adaptation and increase of the competition. This way appeared the natural phenomenon of consolidation the first innovation budgets and the need of assigning the responsibility of it to a certain person or department within the organization. The managers should understand that in their organization it is a resource, the capacity of innovation, that costs, but the access is easy from the financial point of view. It is a resource that term, more brains being brought together.

The innovational process is not unleashed on command and there shouldn't be expected to provide great results all the time. The tries for making something extraordinary, different, great reduces the value of the small differences, and that shouldn't happen, because these small differences such as changing to the LED bulb from the incandescence bulb is also an innovation. Anything that leads to something better is still an innovation, a sum of small differences can be better than a great innovation.

We must pay attention that not all the ingredients are put together for innovation. Europe has no resources, has no favorable demographic evolution and the population is old, the only things present are the brain and a better education. Changing the way of thinking in organizations is fundamental. The most important factor for the stimulation of innovation doesn't consist in money or in the support of the management but in the culture of the organization. The people need to be encouraged to apply their ideas.

3. What innovation means in times of crisis?

Today, even if the economic crisis has a negative impact on the businesses, most of the average and small companies from Romania, local and multinational, own a relatively important base of resources (human, relational, organizational) which can be used in the process of innovation and which begin to be lead towards specific projects.

Of course, taking into consideration that the source of innovation is a new idea capable of bringing value, implication of the entire company in the process of generating the best ideas is a must and a active step of the most innovative companies in the world. But in what concerns the innovation in medium and small companies, a major opportunity lies into a better administration and capitalization of the employees' ideas. Such an initiative imposes a strategy for the innovation management and a rewarding system for the employees in order to encourage the innovative behavior. Of course, the benefits upon the competition are huge if we take into consideration a long term perspective.

The last years are witnesses for the fact that the success of organizations depends on their ability to adapt quickly to the market changes- to those resulted from the technology development and also to the major influences of the global level. So, more and more organizations stresses out the innovation. Nevertheless, in order to make a difference is needed that this to be part of the belief of the organization, and the ones who represent the leadership of those companies to truly belief in the innovative and creative spirit of the people from their companies, and also to support and develop on long term the innovation.

A top innovator is hard to label, but the one who has an idea that is supported by the consumers which changes the way things go could be an indication to success. Innovation can be given by genius ideas, generated in a short period of time, but the ones who really succeed to be labeled top innovators are the ones who have continuity in this, so they

manage to re-invent each time and to change the environment where they activate. So, the organizational culture of these people has a pylon innovation and the creative spirit, and this culture is present during a long period of time.

Innovation is not a process that has a beginning and an end, but this doesn't mean that it shouldn't happen in an organized manner, with a degree of strategy. It must be mentioned that innovation doesn't have an end, there is also an aspect that can bring value, or even a whole new thing that could replace what was there before. But a defining element for innovation is that it must be tested by a great number of potential users and this process must have an end and a conclusion as soon as possible in order to evaluate its degree of success or failure. The failure of an idea doesn't have to demobilize that organization but to make it stronger for refining what can offer in the future.

All these lead to a try of quantification of the resources involved in innovation. Even if the creative spirit can't be put into default shapes, the practical and analytical feature of innovation must contain elements and resources of time. That is the reason for what the allocation of budgets can stimulate the innovation showing on this way the importance within the organization, but it has to be counterbalanced by emphasizing the results. This thing will show the degree of success of the initiatives that took place and it can be a deciding element in the analysis of the future actions.

Citing John Sviokla (2011) with his article "Sticking the Innovation Balance", I mention six tension points as being defining for the organizations to succeed in imposing themselves on the land of innovation, but it is not a scientific formula. So in the lines below, it is presented a mix regarding how the six tension point can lead to the desired success:

Incremental or radical innovation?

Incremental innovation comprises all basis elements for innovation, such as: modification, refining, simplification, consolidation and improving the products, the processes, the services and the activities of production and distribution already existing. Most of the innovations are comprised in this type of innovation, and the importance of it shouldn't be minimized in any way.

The attention with this type of innovation should be directed towards the various versions of the Sony Walkman or even closer to the reality is the example of the most of the cars existing on the market and which from one year to the other are improving their features regarding the security, proficiency, comfort.

In this case of innovation, the improvements are successive and the versions of the products, services or processes don't represent all the time elements of novelty.

The radical innovation implies the inserting new products or services that are developing into a new business. This type of innovation can create a new industry or it can cause major changes in a whole industrial branch, tending to create a new system of values. Eloquent examples would be represented by "banking" with all the electronic transfers, cards, ATMs.

Management or Leadership?

According to Kotter (2008), leadership and management are two different and complementary action systems, each of them having its own functions and features. The junction of the two domains can become a major premise of success in a business environment that is more and more complex and changing.

Even if there is no ideal formula for the combination of the two, one fact is incontestable, the true challenge consists of the combination between a strong practice of a leader with a strong management, and doing so with keeping the balance.

In what concerns the difference between managers and leaders, many authors tend to accept the distinction made in 1954 by Druckner (2007), who stated that management means to do the things right, and leading means to do what is needed.

Even if along the time efforts were made in order to limit the differences between the managers and the leaders, in the last years a bond has been created between the two positions. The most probable, the difference between the concepts of the management and the one of leadership will exist only in their definitions, taking into consideration the tendency to encourage the managers into considering themselves leaders.

Short terms results or long terms commitments?

Despite the things that experts state the organizations don't have to tolerate failure if they want to innovate. But the problem is not fully represented by tolerating or not the failure. Sooner, it is an issue of approach and managing the failure that can appear no matter if it is regarding the long or short term results. Certainly, any organization met on its way at some point less favorable results, but the truly innovative organizations are the ones which no matter the results obtained on short term, or the commitments on long term, knew to manage their results in a manner that makes the success inevitable.

Must be considered that the primary mission of an organization aspiring to a quality management is to meet the needs and desires of its customers. Organizations should be aware that short and long-term survival is possible only by adapting services to customer needs (Țițu et al. 2011).

Innovation as an "open circle" or an investment of the organization?

The approach of the innovation as an open circle represents the choice made by some of the managers of the companies that are nowadays on the market. The principle that guides them is "no one is smarter than everyone" and by guiding upon it, it implies in their evolution many people from clients and distributors to partners. An example of company that acts according to this principle is Protector and Gamble. Their perspective is oriented towards the approach according to which "the consumer takes all the decisions", and this thing helps them to follow and come to meet the always changing needs of the clients.

To the opposite part are the companies which choose to be more restrained in what concerns the innovation activity. The openness of them towards collaboration and sharing ideas is limited to the potential wins which would come from these actions.

- Organic developed innovation or the acquired innovation?

The great companies tend to buy what they can't build. Even if it is about strategic knowledge or the position on the market, many times it is easier to purchase than to build it from ground 0. A successful example of purchase is the buying of YouTube by Google.

Even if the action of purchasing is seen as a bridge to success, there are many cases where the acquisitions proved to be an impediment into achieving success.

- One process of innovation- or two?

The final challenge and probably the most difficult is to determine if an organization needs one process of innovation or two of them. The experts' opinion finds impossible that the same people, the same investment board, or the same set of partners to create incremental innovation and radical innovation at the same time. Or at least the chance is very small.

4. Intangible assets, profit source for companies

The innovation within the Romanian companies it is on an ascendant trend and ones of the organizations are really taking ahead comparing to others, being capable to compete on innovative themes on a global level. Nevertheless, the great challenge for the business environment and for Romania will be the capability to maintain this innovative spirit and to keep the supplement of value from the creative process, from the perspective of the intellectual property and also of the afferent financial resources. Therefore, there must be taken measures of supporting the innovation, or continuing with the already existing ones, even more aggressive comparing to the present, measures that can be taken in the educational, financial and fiscal environment, but also to the level of every company in order to support the innovation and creativity.

The multitude of methods, models and techniques of recognition and measurement of the intangible assets is determined by the complex, special and diverse typology character of them. A first criteria of classification, analysis of the methods targets the sphere the comprises the intangible assets, which imposes to be made the difference between : the holistic method and the atomistic one. The holistic methods suggested in the special literature and the business

practice are: IC- IndexTM, Market-to-book Value, Tobin's Q; VAICTM; Knowledge Capital Earnings (profits obtained from the knowledge based capital); EVATM; Calculated Intangible Value; IAMVTM; AFTFTM.

The atomistic or partial method assumes the analysis and the evaluation of a single intangible asset. The atomistic methods used are: Value Chain Score BoardTM; Scandia NavigatorTM; Balanced Score Card; Intangible Assets Monitor; Human Capital Intelligence; Citation- Weighted Patents; HRCA; Inclusive Valuation Methodology; Technology Broker; TVCTM; The Value ExplorerTM; Intellectual Assets Valuation.

From the point of view of determination the intangible assets, in valuable and non-valuable terms, the specific literature proposes monetary and non monetary methods.

The non-monetary methods that approach the intangible methods in the terms of the quality analysis are: Value Chain Score BoardTM, Intangible Assets Monitor, Balanced Score Card, etc. The monetary methods are for example: Market- to – book Value; Tobin's Q; Knowledge Capital Earnings; VAICTM; EVATM; Calculated Intangible Value, IAMVTM, AFTFTM etc.

In the economic practice, there are 8 methods that are frequently used. Four monetary and holistic methods: Market-to-book-value, Tobin's Q; Economic Value Added (EVATM); knowledge Capital Earnings proposed by Lev B., but also four non monetary atomistic methods: Skandia Navigator (Edvinsson & Malow); Intangible Assets Monitor (Sveiby); Balanced Score Card (Norton & Kaplan); Value Chain Scoreboard (Lev B.).

From the point of view of the strategic management of the firm, the experts present the following groups of methods that basically mean a re-grouping of the earlier presented methods. Methods based on the exchange capitalization: the coefficient (rate) Q of Tobin (Tobin's Q); the indivisible balance sheet. The Q coefficient of Tobin is the ratio between the market value of a marketable company and the replacement value of her substantial assets. The indivisible balance sheet is the difference between the market value of the firm and net asset value. But also the methods based on the return of the assets: The economic value added (EVA); The Market Value Added (MVA); value added (EVA) reflects the residual net profit or the existing profit only in the case the difference between the profitable invested capital and the average weighted costs of the firm is positive. The calculation formula is the following: $EVA = (ROIC - cm_{pc}) \times x$, the initial value of the of the invested capital , where ROIC= the rate of profitability of the invested capital; cm_{pc} = the average weighted cost of the capital.

The market added value (MVA) is calculated as the difference between the market value of a company and the subscribed capital, credits and unshared profits. The capitalization of the profit generated by knowledge is calculated as a report within the difference between the normal annual net profit and the afferent net profit of the substantial assets and the current ones, on one side, and the rate of afferent capitalization in knowledge.

Score based methods: Skandia Navigator; Balanced Score Card; Intangible Assets Monitor; IC Index. These methods are based on the scores given by the assessors and does not quantify the monetary value of the intangible assets.

Direct methods of calculation of the intangible assets: Technology Broker, Inclusive Valuations Methodology. The estimation of the value in what concerns the intangible assets is made through these methods, through information and non monetary evaluations based on quizzes or on special frames of the updated cash flux.

Every organization should identify and describe the intangible assets that are crucial for the potency of the competition power of that organization. But in the same time there must be taken into consideration: the strategy of the firm, its consistency with the external environment, the business model of the company but also the most important resources in order to choose the business plan.

One of the most important aspects to take into consideration is the actual tendency of the firms to rely on the intensive knowledge and on the valuing the new ideas that lead to innovation. In the current phase of the economic life, the businesses can be built around a pattern of thinking and not around a pattern of products and services given. For an organization to be efficient, the problem to question is the one of the efficient allocation of the resources and also the transformation of the intangible assets in economic value. Eventually, if the products and the services are put aside, the competition on the market would take place in terms of intangible assets.

For each type of intangible asset, the organization must answer to the following two questions: "Is this intangible asset relevant for our organization regarding the competition?" and "Is this intangible asset available for our organization?"

Once these aspects are clarified, the next step is identifying and describing the intangible assets which are relevant to the competition. All these activities have as purpose to deliver the external audience a credible and significant image

of those intangible assets which are important to the competition success and therefore, can be appreciated for the financing decisions. More accurate, there are pursued to be identified and described the intangible assets that:

- Are available to the organization and have a role in the accomplishment of the business plan/ model;
- Aren't available and have no significant role in the making of the business plan;
- Are accessible for the organization but have no role in the present business model.

In this context four groups of relevant intangible assets from competitive point of view can be taken into consideration: human resources, intellectual property, organizational capital and relational capital. Every part of this group is made from four to six intangible assets (see table 1).

Table 1. Competitive relevant intangible assets

Human Resources	Intellectual Property	Organizational Capital	Relational Capital
Entrepreneurship experience	Encoded knowledge. Data bases, procedures and handbooks	Methods/ procedures/ for production/ providing services	Attract the consumer
Education and competences of the employees	Business information. The change and secret of the business	Accreditation	Management of the clients' portfolio
Know- how and tacitly knowledge	Certificates/ patents and inventions	Instruments and systems of project management	Providers management
The motivation and loyalty of the employees	Trademarks and brands Designs and models Author rights	Administrative system	Cooperation and networking

Behind these groups of intangible assets we find markers which can be analyzed in an economic- financial context in order to contribute to the development of the organization. The markers, analyzed in concordance with the phases of management proposed by the European project of research "EVLIA- Making full value of good ideas by leveraging intellectual assets for financing SME's in SEE", are creation, function, planning, transferability and they can contribute to outline a successful strategy of success that ensures the continuity of the organization on long term (see table 2).

Science, technology, innovation are domains that generate a continuous technological progress, providing the durability of development and the perspective economic competition. Also, innovation and the technological transfer are solution for solving economic issues and for the permanent renewing of the necessary technologies, by connecting to the demands and pressures of a free market found in expansion within the process of globalization. That is the reason why the development and implementation of an unanimously recognized evaluation model of the intangible assets is a necessity if we take into consideration the benefits further created. But the organizations have to confront obstacles when they try to develop themselves. They are found in disadvantage when they must attract external financing if they can't find capital because usually they don't dispose of the performances or guarantees needed by the financial intermediates and banks.

Table 2. Types of indicators

The phases of management of the intangible assets	Description
Creation	How do you obtain the asset?
Functioning	How do you use the asset? How does it contribute to the business model? Can we estimate as quantity the advantages that are provided?

Planning	How is managed the regeneration of the assets?
	How would we manage to obtain the asset needed?
Transferability	Is it the asset relevant for somebody else?
	Can we tax something for it?

The problem is debated also at the level of awareness level for the trading value of the intangible assets by the entrepreneurs. On the other hand, even if the investors know the importance of the intellectual property strategy in ensuring the survival and the success of the company, for many of them these are found at the bottom of the list of factors that they take into consideration when they decide to invest and this thing happens because along the time, the intangible assets have been neglected. But there shouldn't be neglected the fact that the intangible assets are the most important assets that a company owns and taking into consideration their importance on the global market, it is easily understood the necessity of a demarche for establishing an identification methodology and evaluation of intangible assets. Țîțu et al. (2014)

The EVLIA project suggests the developing of a methodology dedicated to financial and economic evaluation for the intangible assets of the SMEs in concordance to the financial entities. The purpose of this project was to examine methods of approaching of this issue, implementing a standard methodology and testing its efficiency by involving the financial intermediates. The biggest obstacle in stimulating the interest and the activity in the financial section by intangible assets is the insecurity that surrounds the evaluation of the intangible assets. Business evaluation is regarded more like an art than as a science in many places. For example, the evaluation of a certificates portfolio or of trademarks for a brand is a challenge even greater because of the inherent uniqueness of the intangible assets and of the preoccupation for the possibility of transfer them from the original company. Welzi et al. (2013)

5. Conclusions

The intangible assets have become the main generators of income in most of the companies, even if they aren't entirely exploited to their true value. The clarification of their role in the system of creating value leads to the awareness of needing a better strategy in terms of organization and the need of a more aggressive management of the intangible resources.

In these circumstances, the success of the companies doesn't depend on the production facilities or on the material capital that was the case years ago. Appropriate in this context is the statement of the regretted executive director of Coca-Cola, Roberto Goizueta who said: "even if all our factories and endowments would entirely burn over night, wouldn't succeed to affect too much of the value of the company; all this value resides, actually, in the trading fund ensured by the franchise of our brand and the collective knowledge thesaurus of the company". Kotler (2004)

In the same context, Peter Drucker states that "The firm has two- and only two – basic functions: marketing and innovation. Only the marketing and innovation are developing results- anything else is expenses". Kotler (2004)

In the Romanian context, even if there are a few theoretical works which approach the problem of the intangible capital and its importance, if we are to analyze the economic reality we notice that in what concerns the application of this information we still have a lot to do. We are already used, that in almost every field to be asked to change our "dusty" vision and to accept the new trend that guides the current society. Even so, taking into consideration the circumstances, we must adopt an action position and to give up chatting on the subject of capital matters for our developing economy. Regarding the intangible assets, these must be managed with great attention, and permanently developing them.

The intellectual products, information and knowledge, spiritual, scientific and cultural potential of the contemporary society are the motor force of a long term development and it determines economic competition. All these lead to the increasing of the intellectual property in the modern society.

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