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UNDERSTANDING INNOVATION DRIVE OF LEADING SERBIAN COMPANIES

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Abstract: Innovation oriented business will lead to faster growth, increased market share and better corporate positioning and thus is viewed as the prime strategy. The paper discusses the effectiveness of innovation in chosen leading companies in Serbian market in confectionery, dairy and meat processing industry. Companies, having more than 50 years of continuous production are the absolute market leaders and pioneers in their industries. Understanding their drive, sources of innovation and effectiveness is the concern of this paper.

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Introduction

The pivotal role of innovation to entrepreneurship and business success, within the knowledge based and hyper competitive environment, have made it even more necessary for all businesses to understand, adapt and implement it. The innovation process has often been referred to as a journey, involving a range of activities that span all parts of the firm's activities. However, empirical research on innovation has shown that innovations tend to follow a more tortuous path, with many iterative cycles of development across different activities within the firm and across different firms. These new conceptions of the innovation process stress the distributed and interactive nature of innovation. A broader understanding of innovation as a process of bringing any new, problem-solving idea into use is appropriate leads to viewing strategic and social initiatives as innovative.

Understanding the importance of innovations and firms' ability to adapt

Ideas for new innovations may often come from many different actors in the process, such as end-users, customers, suppliers and even competitors. There are indications that learning from group participants may be important, while some suggest creation of "combustible cocktail" of creative tension. New trends in improving measurements of innovative work behavior are gaining the importance.

Successful innovation has become critical to adjusting and adapting to changes in technology, markets and competition. The percentages of firms, which regularly employ innovative activities in their day-to-day business deliverables, vary considerably across industrial and commercial sectors.

The competitive advantage sustainability is linked to the firm's ability to develop and accumulate technological resources, since accumulation of resources over time obstructs the imitation of abilities and knowledge and opens up unique opportunities for innovation". New product development is defined as the transformation of a market opportunity into a product available for sale, through a set of activities executed in a logical way, sequentially or concurrently.

Selecting the most attractive companies for the research

Superior ability to develop and introduce new products faster and cheaper than competitors is a core characteristic of the market leading companies. Effective product innovation is the key to growth, even survival, for the business regardless of the industry.

The research that was conducted focused on three large and dominating companies in chosen industries in Serbia. The subsectors selected for the analysis are: confectionery, dairy and meat processing. Chosen subsectors are characterized as the most promising once by the Ministry of Trade and Services last year, while confectionery industry separately was characterized as the most vital industry in Serbia by the Minister of Trade and Services in 2009. Processing industry accounts for slightly below 15% of Serbian GDP according to National Statistical Office.

Subsequent to selecting the sectors we opted for analyzing only the innovative capacities and practice of the leaders, i.e. those companies that have the highest market share in their industries. For this reason the selected leaders were identified as:

- a. *Pionir* is the company with over 90 years of continuous production of confectionery goods. The 10% of their Serbian market share is the most one company could get in the fierce competition from domestic and foreign companies present at our market
- b. *Imlek* is the largest dairy company in the Balkans with almost 50 years of continuous production. This company is a part of the largest Danube Foods Group (Salford Capital Partners Inc.) that accounts for 65% of Serbian market share, of which Imlek has slightly less than 40%. They are the absolute leader in the industry
- c. *Neoplanta* is the leader company in the meat processing industry with 50 years of continuous production and the Serbian market share with over a 20%.

All three chosen companies have been privatized since 1998 (*Pionir*) till 2007 (*Neoplanta*). While all three are operating in Serbian market, they all have a strong export

orientation, e.g. Pionir devotes 65% of its products for exporting.

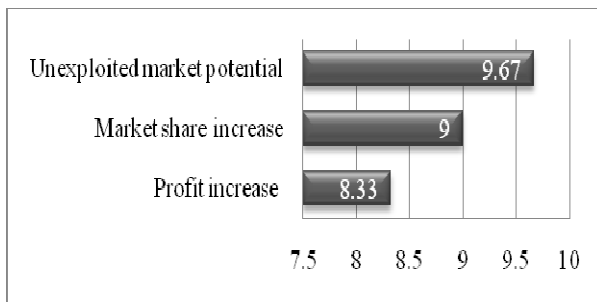
Each selected company is a leader in its branch and has more than a hundred products in its product palette. What is more important for this research, not any of the companies is involved in imitating, but devotes a lot of resources in innovation activities. Having in mind that 97.8% of the value of innovations goes to imitators this was of a great importance to our selection of the candidates for the research.

A structured questionnaire was developed and sent to the companies. Companies have answered in highly professional manner and we were able to conduct our analysis. The questions were asked regarding their attitude toward innovation and organization of their innovation units/departments.

Research results

The first conclusion after analyzing the provided information was that primary drive for innovation comes from the desire to extent market coverage and attracts more customers. The respondents were asked to place a value, at the scale from 1 to 10, on the importance of numerous factors and the top three are portrayed in Figure 1.

FIGURE 1. IMPORTANCE OF DIFFERENT MOTIVATION SOURCES FOR DEVELOPING NEW PRODUCTS



What could be interesting to see is that profit increase came in the third position being valued 8.33 on average.

The subsequent concern was to determine the sources of innovations. Figure 2 presents the sources and their influence on companies. The most important departments, as internal source of innovations, are research and development together with marketing, as in all respondents those two are interlinked. The most influential external sources of innovations are identified as: competitors, customers, outsourcing (R&D institutions, consulting companies) and suppliers.

Second, we were exploring the involvement in the process of innovation in the company. Some of the companies stated that they don't have the separate Research and Development department, while others stated that they don't have people employed by that department as they purposely gather separate teams for each new product they are planning to develop. The selected departments and the demonstration of cooperation among different departments merely substantiate the extended experience in new product development that those companies have and the importance they place to product innovation process.

Last, but not least we were interested in finding out the market effect they have with new products. Several questions were posed concerning market success and market orientation. All respondents kept in mind specificity of the end user/customer of the product they are developing. The perceived main characteristic of the customer is the modest openness towards innovations. The verification was provided by one of the questions in which all three companies ranked the "utility or the convenience" of the new product as the most desired characteristic for their customers, choosing one out of ten offered characteristics.

While exploring market orientation of the companies, we were interested to find out the success rate of placing new products on the market. The results are presented in Figure 3. As it is shown all the companies were able to successfully place well over 50% of their innovative work on the market.

FIGURE 2. SOURCES OF INNOVATION IN SERBIAN COMPANIES

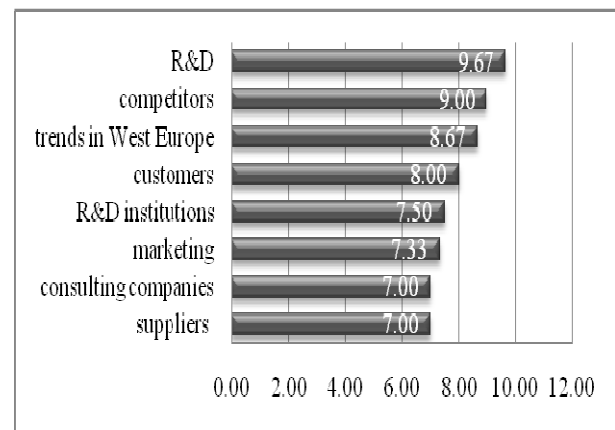
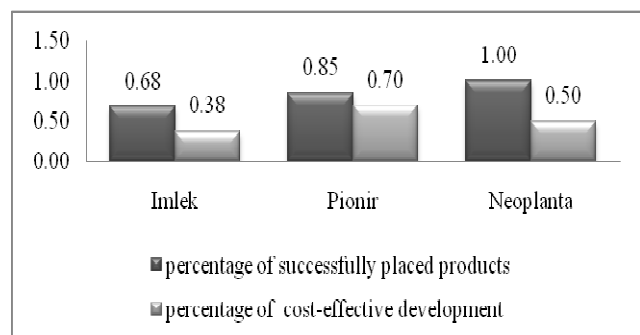


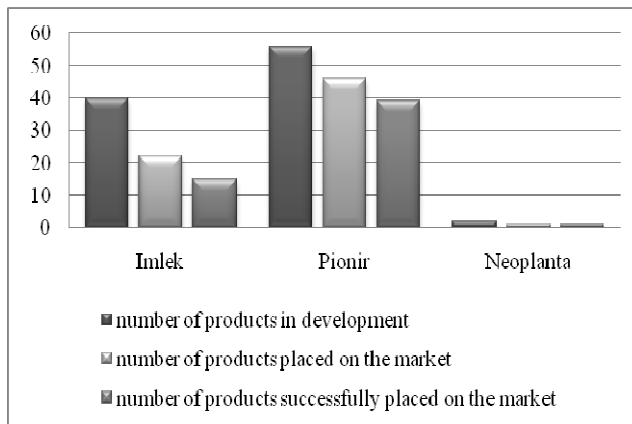
FIGURE 3. SUCCESSFUL MARKET PLACEMENT OF NEW PRODUCTS



However, any innovation would be successful only if it has a beneficial return on investment and brings financial gains to the business of the organization and also adds value to the business of all involved stakeholders. The following Figure gives the insight into the actual number of products companies were devoting their resources in the past several years. The absolute leader is the Pionir company, with over 50 new products in development with the 70% of cost

effectiveness (Figures 3 and 4). One of the possible explanations could be the fierce competition they are facing in domestic and foreign market. The confectionery industry, although being the most vital in Serbia, is certainly the one being most lucrative for the companies attracting more than 150 domestic producers and countless number of foreign producers.

FIGURE 4. COST EFFECTIVENESS OF DEVELOPING NEW PRODUCTS



Conclusion

The top performing companies share a common characteristic that is their superior ability to develop and introduce new products faster and cheaper than their competitors. Intrinsically, effective product innovation is the key to growth, even survival, for almost any business. Innovation allows enterprises to satisfy the ever-increasing demands of customers and offers greater value satisfaction.

As international competition intensifies and product/process life cycle shortens, the pressure to innovate heightens. Chosen Serbian companies presented in the analysis provided a prolific ground to better understand the reasons and sources of innovation in a competitive business environment. Further more, the confirmation that innovation oriented companies are the only capable of being the market leaders is adding to everything previously stated on the importance and necessity of innovation. This research is the first in the series of understanding drive for the innovation in Serbian companies. The importance of the conducted research will be visible in the form of policy suggestions to foster innovative business environment. On the other side the consulting services will be enhanced and educational assistance provided to leading companies helping them sustain the role of absolute leader in the market.

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