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BENEFITS DERIVED BY BUSINESSES FROM INNOVATIONS

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Purpose: This publication is aimed at identifying the potential financial benefits derived by businesses from innovations. A research gap has been identified and will be the basis for designing and implementing research involving enterprises.
Design/methodology/approach: A systematic review of the literature in the Web of Science and Scopus databases, in accordance with the approach proposed by H. Snyder (Snyder, 2019) was used for this research.
Findings: Thanks to the literature review, attention was paid to the unequivocal results of prior research on the benefits that can be achieved by businesses which decide to implement innovations.
Originality/value: The research has shown a potential research gap in current publications in the selected databases of research results in terms of evaluating the benefits of innovations if non-refundable EU subsidy is obtained.
Keywords: innovations, financial benefits, enterprise.
Category of the paper: Literature review.

1. Introduction

Many authors write about the significance of innovations. The concept was popularised by J.A. Schumpeter, who is often considered to be a forerunner or protagonist of the theory of innovation (Gust-Bardon, 2012; Musiał, Chrzanowski, 2018). In his view innovation is (1) introducing a new product which has not been available to customers thus far or equipping with new characteristics or enhancing an existing product in a considerable manner, (2) introducing a new manufacturing method which has not been used so far in a given area, opening a new market, creating a new market segment or entering a new geographical market, (3) obtaining a new source of raw materials or intermediate products irrespective of whether it existed earlier or not or (4) introducing a new organisation in a specific industry, e.g. by creating or eliminating a monopoly (Schumpeter, 1960).

In the definition of innovations proposed by Schumpeter, it should be noted that it is about the real activities of an innovator which are crowned with the effect of marketing a solution. This means that Schumpeter does not treat activities only characterised by innovativeness as innovations, as he sees innovations as being related to inventiveness and manifested by, for example, new inventions. If an invention is not commercialised, i.e. if it is not marketed, it is not considered by Schumpeter to be an innovation, which he associates with inventiveness.

S. Taylor believes that a society develops along with the implementation of new ideas which allow for new solutions to existing problems or improvements to existing systems, processes and products. In his opinion, the proper support and implementation of innovations requires an understanding of how an innovation may be implemented in a world in which people live to ensure benefits to improve their lives. Thus, this seems to demonstrate the final outcome of the development of modern solutions (Taylor, 2017). The fact that innovations are the driving force of progress should raise no doubts.

2. Research Methodology

The method of systematic literature review was used in the analysis. The procedure was based on methodological guidelines suggested by W. Czakon (Czakon, 2011) and H. Snyder (Snyder, 2019). Thanks to this approach, the research procedure may be replicated.

The research problem defined for this research was determining a possible influence of innovations implemented in businesses on the benefits generated thereby, especially financial ones. The following research questions were posed:

1. How can innovations affect the financial results of the enterprise implementing them?
2. What factors determine the financial benefits of implementing an innovation?

The research procedure consisted of several stages. Two of the most popular international databases for publications, Web of Science and Scopus, were selected for the purposes of this research. Based on the analysis of the literature, keywords were specified as filter criteria in databases. Upon choosing publications, their titles and article abstracts were analysed; those not related to the assumptions of this research were rejected. The selected small group of publications was further analysed in terms of content.

This text is the first part of a series of papers. The next article will include the results of empirical research carried out in companies based on the literature review described above.

3. Course of Research and Research Results

The term “benefits of innovations” was chosen to be the first search criterion in databases of scientific publications. In this way, 165 items from Web of Science and 246 items from Scopus were chosen. After combining both sets and removing duplicates, 274 elements were obtained for the purposes of analysis of titles and abstracts. After this stage, there were only 92 publications left for further analysis of their content. This analysis reduced the number to only 22 items meeting the specific requirements to the greatest extent.

The analysis of the content suggested that innovations may have a positive influence on the likelihood of survival for companies which implement them. Additionally, research published by E. Cefis and O. Marsili confirms that the effect intensifies over time and depends on the age and size of the company. It was observed that the risk of going out of business is highest among small, young companies. However, it is also surprising that the same risk applies to companies which use innovations to the greatest extent in order to survive on the market, especially in the long term (Cefis, Marsili, 2006).

M. Cuijpers, H. Guenter, and K. Hussinger studied the costs of innovative operations, and after analysing 433 German production companies they came to the conclusion that the problem may be solved by cooperating on innovations, which may also increase the efficiency of process innovations. Even though it may generate extra costs, e.g. project delays, this does not affect the results in terms of innovations at the company level. Thus, it may be concluded that companies may balance the costs and benefits of such cooperation in a portfolio of innovative projects (Cuijpers, Guenter, Hussinger, 2011). C. Wang, Y. Cen, R. Sun and H. Ying also looked at the high costs and considerable uncertainty of innovative activities. It is their view that a good solution may be to establish cooperation when carrying out research and development (Wang, et al., 2021). Rising costs result from stronger market competition, which in turn forces greater expenses on research and development. However, the uncertainty of innovations may mean that the benefits derived from it are lower than the costs. This is emphasised by J. Wei, who believes that this may be solved by an attempt to distribute costs among a higher number of entities, e.g. as part of industrial clusters (Wei, 2011). Turning to imitation, which may bring greater benefits to companies than innovations and which is the result of governmental intervention in China and India to promote state companies, is another solution suggested by E. Yan (Yan, 2020).

The benefits of innovation in business may include various factors, such as efficiency, an increased competitive advantage and improved reputation. Technology companies which rely on new products or improve existing products have an advantage over those which simply manufacture traditional products or services with a low level of novelty (Bolatan et al., 2022). This has been confirmed by V. Intrama, who writes that the benefits resulting from innovations are non-debatable. Most importantly, they may increase goodwill, no matter whether the company produces goods or renders services. He also emphasises that process efficiency may be improved, leading to enhanced productivity (Intrama, 2020). E. Fontela believes that lower manufacturing costs may also be a benefit of innovations. In addition to enterprises that implement innovations and their owners, suppliers, employees or consumers who may purchase cheaper products also have a share in this cost reduction (Fontela, 1994). On the basis of their research, A.N. Mai, H.V. Vu, B.X. Bui and T.Q. Tran reported that higher profits are earned by innovative companies in comparison to non-innovative companies. They also note that the same effect is observed in both the short term and the long term (Mai et al., 2019). The same view is also shared by M.E. Ogbari, M.A. Olokundun, J. Taiwo-Adelakun, O.J. Kehinde and A.B. Amaihian, who point to an increased profit rate (Ogbari et al., 2019). Positive economic results may result from increased productivity, which may be related to production costs of not only products, but also services (Mason, 1992). Profits are particularly noticeable in businesses which implement innovations on a global scale, as confirmed by J.C. Percival and B.P. Cozzarin (Percival, Cozzarin, 2008). B.-H. Tsai, in turn, states that companies with a sizeable market share may derive even greater benefits. He also confirms the correlation between market share or innovations and company goodwill (Tsai, 2007). P. Ueasangkomsate enumerates the benefits of implementing innovations such as cost reduction, also through reduced employment, lower demand for office space, time flexibility, quicker response time, stimulated cooperation, increased market penetration and work flexibility (Ueasangkomsate, 2022). V. Vannoni, in turn, observes a relationship between innovations and company turnover and its size (through increased employment), though innovations do not always translate into increased profitability of operations (Vannoni, 2019).

However, R.W. Fri claims that innovative companies may not achieve economic benefits or they may be unavailable (Fri, 2003). J. Damijan, C. Kostevc and M. Rojec, in turn, determined that only manufacturing companies characterised by growth in productivity below average may derive considerable benefits from the effective implementation of innovations. Enterprises which develop well do not achieve any additional benefits from innovations (Damijan, Kostevc, Rojec, 2012). In the book they edited, K.-E. Sveiby, P. Gripenberg and B. Segercrantz are critical of the assessment that innovations are important economic measures of enterprise functioning. They emphasise the possibility of undesired consequences and argue that external factors may reduce the benefits of innovations (Sveiby, Gripenberg, Segercrantz, 2012).

Even though they do not question the positive influence of innovations on businesses, L.O. Meertens, N. Sweet and M.E. Iacob point out that research and development entities which have problems proving their value added may experience issues related to costs. This is particularly painful in crises, when their budgets are reduced to decrease costs in the short term. Such steps may result in decreased competitiveness, not only of companies but even of whole industries or economies (Meertens, Sweet, Iacob, 2015).

M. Rousseau, B. Mathias, L. Madden and T. Crook point out that even though innovations are considered to be the driving force of development of many organisations, businesses may often find it difficult to realise the expected benefits of innovations. Research on innovations often yields ambiguous results. Based on the research, they conclude that benefits expressed as non-financial values (e.g. increased market share or sales dynamics) indicate considerably better effects from innovations than financial measures (e.g. ROA). They also point out that large companies frequently derive greater benefits from innovations than small companies, which may imply that there are additional factors which affect the outcomes of the innovation implementation process (Rousseau, et al., 2016). Innovative companies may bear a higher financial risk resulting from a compromise between innovation and product reliability. A. Mackelprang, M. Habermann and M. Swink note that unexpected failures may generate costs which substantially reduce the positive economic result of innovations (Mackelprang, Habermann, Swink, 2015).

C. Poblete drew interesting conclusions regarding the role of innovations in business results. In his opinion, innovation may act as a motivating force which increases the developmental expectations of companies (Poblete, 2018).

4. Summary and Conclusions

The literature review has identified the unclear, heterogeneous benefits of innovations. To summarise the research findings, the following general conclusions can be drawn:

Innovations do not always lead to describable economic benefits, especially profits or profitability of operations.

The costs of innovative activities, especially research and development, are so high that they may significantly reduce the potential benefits of innovations. Cooperating with other entities may be a method to overcome these obstacles.

Entities involved in research and development always have problems proving added value and very frequently face problems with cost level, which results in cost reductions – especially in times of crisis – and disturbed functioning, which threatens the level of innovations not only in companies or industries, but also entire economies.

State interventionism may have an adverse effect on market balance, which may lead to companies focusing on imitation to avoid competition with favoured state enterprises.

The introduction of innovations in companies may enhance non-financial factors (market share or sales dynamics), but it may also increase the company's chances of survival.

Financial benefits such as increased profit may depend on enterprise size (larger enterprises achieve better results) and the type of innovation implemented (global innovations are more prone to stimulate profit than innovations at the national or local level).

The risk related to reliability of products is a serious problem with innovation, which may also lead to higher costs of warranty service and lower benefits of innovation.

This research shows that innovations may potentially lead to improved financial results of enterprises, but do not guarantee them. Therefore, further analysis of the relationship is necessary. It seems particularly important to analyse more deeply matters related to interventions with public funds as a potential disturbance of market rules and a factor contributing to increased innovation and stimulating financial results of the beneficiaries. Therefore, it is justified to conduct research on innovative enterprises in two groups: those which implement innovations without support from subsidies and those which receive such aid. Obviously, it seems important to investigate the type of operations and innovations in which such support is most effective and efficient.

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