

# **NEW COMPETITIVE PARADIGM BASED ON INNOVATION**

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Innovation is one of those "words" that fills the mouth of today's economists, advisers and politicians. It seems that innovation is the key to get out of the crisis, to create employment and, ultimately, the golden rule to save our future. For this reason, those of us who think that it continues to be a key concept, have to explain very well what we mean when we point out the need to innovate, as the key to our future.

In a very simplified way, it can be said that the competitiveness model of the Basque business fabric (preferably in industry) has been based on operational efficiency. Basque companies have earned their position in global markets by competing fiercely with others based on a highly qualified knowledge of the processes in which they have improved to the maximum, making very effective use of the best technology and human resources available. This has been the case of many companies of metallic materials and the manufacture of automotive parts and components, among others. In other industrial subsectors such as machine tools, household appliances or capital goods in general, operational efficiency has been linked to product development, closely following the main global market leaders.

Nobody can deny that this model of competitiveness has been frankly successful. It helped us get out of a deep structural crisis at the end of the 1980s (in 1988 the industrial GVA of 1980 recovered and from 1990 to 2008 it grew by 95% in real terms), it has contributed to creating more than 334,000 (from 1985 to 2008) and has positioned us with a GDP per capita 40.6% above the EU27 average (data from 2007). Furthermore, at this time when we are suffering the consequences of the global recession, the indicators seem to show a path out of the crisis in line with those of the most developed countries in Europe.

The key question that arises now, however, is whether this competitiveness model based on operational efficiency, which has been so valid over the past 20 years, will also serve as a reference model for the next two decades.

Our growing aspiration for high-level living standards and services, the qualification of our young people who are looking for progressively more sophisticated occupations and, especially, the growing international competition from companies with better cost structures in emerging countries are precipitating us towards a progressive obsolescence of our competitiveness model based on operational efficiency. Competing in "costs" and "know how" does not seem to be our best assets in the near future.

Without prejudice to individual cases, the answer must be forceful: as a country we need to configure a new paradigm of competitiveness that makes a difference in a path of sustainable progress. The new paradigm of competitiveness has to focus much more on the generation of value than on cost efficiency, incorporating new, more imaginative and flexible business models that openly reconsider "what the company does" from a medium and long-term perspective, but also, how and with whom to make them more sustainable and competitive globally.

The key is to take advantage of what we know how to do to, on the one hand, evolve towards segments of the same product chain in which our contribution is more significant and differential and, on the other, bet on new business niches in sectors of activity more people and knowledge-intensive ones where we can quickly build a global advantage.

This is the only way to market the talent of the people we have to invest in, since together with our way of life and our values they are our main asset and competitive advantage.

We can baptize the new paradigm as a competitive model based on value or innovation, but we cannot fall into a lax interpretation of the concept and we have to make it perfectly clear that

innovation really is when the changes are perfectly aimed at creating sustainable competitive advantages and market value. Changing for the sake of changing or even incrementally improving is not the innovation we need, but rather a useless whim of those who have the resources to squander them. They remember the magnificent investments that were made to modernize Altos Hornos de Bizkaia, only to later have to close it... Well, that.

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