

Marie Černá

University of West Bohemia, Faculty of Economics, Department of Finance and
Accounting, Husova 11, 306 14 Pilsen, Czech Republic
email: macerna@kfu.zcu.cz

Innovation for Competitiveness – Sole Trader in the Construction Sector

Abstract

The period we live in is characterized by constant change in every field of science and also in every field of human activity. New business environment places greater requirements on business units. They have to change ordinarily used tools and methods for newly created ones in a very short time period to be able to offer successfully their products or services in today's competitive environment. It is unpleasant for huge companies, but almost impossible in a case of small companies or sole traders. Sole traders have to overcome many problems connected with production process and availability of sources. To be able to ensure the safety and usefulness of all sources used in business, each company has to use tools provided by disciplines like informatics, information technologies, management, financial management, risk management etc. Sole trader's possibilities are limited by available funds. This may be the reason why many sole traders do their businesses nowadays the same way they did it years ago (without the use of new tools and technologies). This article seeks to answer the question how to optimize final output and use of sources to achieve maximum business success in a case of the sole trader in the construction sector with use of available tools provided by modern information technologies. In the beginning, it summarizes general information about sole traders and their business potential in a given area. Then the practical problems solved in a daily business are described and the alternative solutions are suggested. The practical case of sole trader's decision-making process is given and the findings are described and evaluated at the end of the article.

Key Words

competitiveness, construction sector, decision-making process, innovation, sole trader

JEL Classification: M10, M15

Introduction

New business environment is nowadays characterized by many changes. Everything, technology, culture, economy, business, politics etc., changes quickly. Business units have to solve problems that have arisen in connection with this situation, with increasing pressure to improve their existing products or services. [1] Possible solutions are presented by constantly developing disciplines such as informatics, information technologies, management, financial management, risk management, etc. The proposed solutions operate with the assumption that main problems which have to be solved are connected with the relationship between the quality and quantity of used sources and the final output of the production process or the process of providing services. Another problem is the availability of all necessary sources. Sources are represented most often

by production inputs, money, information, information technologies etc. All these inputs are necessary for the smooth running of production process that enables future successful business. To be able to ensure the safety and usefulness of all sources used in business, each company has to use tools provided by disciplines described at the beginning of this paragraph.

Limiting factors in the decision-making process of all business entities are time and available funds. Final decision-making about changes in the way of providing products or services depends on the type of business entity and many other factors (financial and non-financial).

If the decision-making process is provided by the sole trader, the responsibility for final solution of the problematic situation is up to this only person, even if there is the possibility to ask the expert on a given area. All possible scenarios of future development have to be considered. All possible outputs, benefits and negative impacts, have to be described and assessed. All additional spendings connected with designed changes have to be detected and evaluated.

A few years ago, there were a lot of sole traders who decided to continue with their activities the same way they did it before. Currently, the situation changes. Even if the change of existing business activities takes money and time, many sole traders decide to accept the change. The reason is the change of the way of their thinking and view of innovation. They are able to recognize its positive impact on their future business activities. Such an acceptance may sometimes be the only possibility to maintain the sole trader's position in the competitive market.

Typical problems in the decision-making of the sole trader are solved in the part number five. This part of the article tries to detect information that enables sole traders to answer the question how to optimize final output and use of sources to achieve maximum business success with use of available tools provided by modern information technologies. Seeking the answer to this question is the main aim of this article. The practical case of sole trader's decision-making process connected with innovation is given and the findings are described and evaluated at the end of the article.

The real view of innovation and its adoption differ business unit to business unit, country to country, area to area. [9] Everything depends on many factors such as the type of the business unit, final output (business sector), type of used production process or process of providing services.

1. General information – innovation and sole trader

1.1 Innovation

The driving force of the business is innovation. Innovation is defined using many different ways. One possibility of defining this term is described by the following definition.

"Innovation is the process of translating an idea or invention into a good or service that create value or for which customers will pay. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need." [15]

Types of innovation:

- deliberate application of information,
- imagination and initiative in deriving greater or different values from resources,
- generating new ideas and their conversion into useful products,
- ideas applied by the company in order to satisfy the needs and expectations of the customer.

Innovation is used as a tool that helps to create new methods (alliance creation, joint venturing, flexible working hours, creating buyer's purchasing power). Sources of innovation opportunities can be divided to internal and external.

Internal sources of innovation opportunities (inside the enterprise):

- unexpected events (success or failure),
- contradiction (reality vs. expected reality),
- innovation as the answer to process requirements (necessity of the innovation),
- changes in sector structure or market structure.

External sources of innovation opportunities:

- demography,
- changes in the world view, moods and meanings,
- new knowledge (scientific and non-scientific). [4]

Innovation is usually associated with activities of large enterprises. They have the necessary financial sources that help them to ensure also activities in the area of development and innovation. Their main aim is to be successful in future business. This is usually the reason for selecting the group of people that specialize in the field of development and innovation. [10]

The situation of small companies and other business subjects is different. Innovation in a case of a sole trader can be represented by new ways of thinking about processes that are necessary for smooth running of the business. Sole trader can make a decision about the use of new tools of management in business process or about the use of modern information technologies. Advantages connected with the use of modern managerial methods are usually visible in a relatively short time period. Their use leads to greater business success. Main problems with implementing innovative thinking to business seem to be the lack of financial funds and time.

1.2 Sole trader

Definition of the sole trader: "Sole trader or sole proprietor is when a business is owned and controlled by one person who takes all the decisions, responsibility and profits from the business they run." [13]

This type of business represents the simplest business structure (the easiest way of trading). The owner makes all decisions, does all the work. Sole traders can hire other people if they want or need to. On the other side, sole trader is also liable to pay any debts that the business may incur.

Tab. 1 Advantages and disadvantages of running business as a sole trader

Advantages	Disadvantages
Clearly defined ownership	
Full control of business activities	Full responsibility for business activities (losses and liabilities)
Simple business structure	Irreplaceability of the sole trader
Simple documentation	Lack of time for planning business strategy
Taxation advantages – connected with low profit	Taxation disadvantages – connected with high profit
Financial information is kept private	Need to engage the external accountant
Decision making process is fast	
Closer relationships with customers	Difficulties in obtaining larger contracts (low capacity,...)

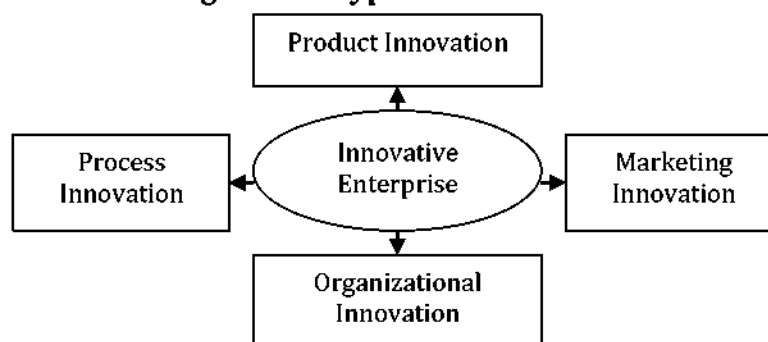
Source: author, according to [5]

Sole trader is classed as a small business or SME (small enterprise), because there is the only employee who is also the owner of the company. [7]

2. Current division of innovation

Innovation is currently described as the situation when the product or service is new from its producer's point of view (subjective point of view). Current division of innovation is: product innovation, process innovation, marketing innovation and organizational innovation.

Fig. 1 Main types of innovation



Source: author, according to [12]

- **Product innovation** is introduction of new products or services or products or services significantly improved with respect to its characteristics or intended uses. This is represented by the significant improvements in technical specifications, components and used materials, software, user-friendliness or other functional characteristics.
- **Process innovation** is introduction of new or significantly improved production processes or delivery methods. This includes significant changes in techniques, equipment and/or software. Process innovation includes new or significantly improved methods for service production or provision. They may include significant changes in equipment, software used in enterprises oriented to services or procedures or techniques used to deliver services. Process innovation also includes new or significantly improved techniques, equipment and software in associated supporting activities such as purchasing, accounting, computing and maintenance.
- **Marketing innovation** is introduction of new marketing method including significant changes in product or packing design, product placement, promotion or pricing.
- **Organizational innovation** is introduction of new organizational method in business activities of the enterprise, in workplace organization or external relations. It is the type of innovation that was never used by the company in the past and is the output of strategic decision adopted by management. Examples of such innovation are new methods of education in the company, new methods of knowledge sharing inside the company, new methods of division of responsibilities, etc.

Innovative enterprise is defined as the enterprise that implemented any kind of innovation (technical or non-technical) in a given time period. [12]

3. Business units and innovation in the Czech Republic

The approach to innovation in the Czech Republic is influenced by many factors. The main difference between our republic and other countries like for example the USA may be seen in risk aversion and in different approach to innovation. In the Czech Republic innovation is usually described and explained as something that has been invented and can be transferred to new (other) conditions (countries, types of businesses). Possible chance to improve the situation in innovative thinking is seen in implementation of new methods of education. The aim is to provide students the new perspective on innovation and to motivate them this way to their own future business activities. [6]

Situation in innovation and its implementation in czech business was described in 2012. This part of the article uses the secondary data. Data are provided by AMSP ČR (Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic). [3] The research conducted by AMSP ČR and Česká spořitelna from 9th May 2012 till 21st May 2012 answered the questions connected with innovation and its application within the small and medium-sized enterprises. The reserach involved 514 respondents from small and medium-sized enterprises from all regions of the Czech Republic. Researched areas were production, trade and services.

Findings of described research were summarized in the final report. This report sets out, among others, the following facts. In last two years innovation was realized by 91 % of respondents. The enterprises often cooperate with other external subject. Innovation is usually realized as the answer to customer's requirements.

Tab. 2 Most often realized innovation

Type of innovation	% of respondents
Service innovation	72
Marketing innovation	48
Product innovation	37

Source: author, according to [3]

Innovation is usually financed by internal financial sources of the enterprise.

Innovation in small and medium-sized enterprises is conducted irregularly. Most of the owners or managing directors of the companies have experience with any kind of innovation. Innovation is seen by them as an important part of activities ensured by business units. Small enterprises are actively engaged in innovation processes. They explain them as the meaningful activities. Future situation in implementation of innovation seems to be similar to the current state. [2]

4. Selected problems solved by the sole trader

One possibility how to run business is to become the sole trader who is classified as a small enterprise. Advantages and disadvantages of this way of running business were described in chapter "General information – innovation and sole trader". Situation of the sole trader is similar to the situation of small and medium-sized enterprises. Current extremely competitive environment faces this type of business unit to many problems [14] connected with the fulfillment of its objectives. (Usual objectives are to make a profit and to remain on the market.)

Generally, the main problems of current sole traders in construction sector are connected with finance and customers. There is no certainty that the sole trader will receive the agreed payment for provided and delivered services. Problems with bed debts are also solved by other enterprises, but in a case of the sole trader, this problem represents serious existential problem. This type of problem has to be solved without the existence of sufficient legislative support. That is the reason why the sole trader reaches its objective (agreement) only in a small number of cases.

Solution to some of the problems described in the table number three can be seen in innovative thinking. It represents the sole trader's tendency to improve his current situation with the use of available inputs. Which type of innovation (product innovation, process innovation, marketing innovation or organizational innovation) will be selected depends on factors such as business sector of the sole trader, available financial sources, other available sources, etc.

Tab. 3 Division of the selected problems solved by the sole trader

Area of concern	Specification of the problem
Organizational structure – sole trader	Sole trader's skills and abilities
	Substitutability of the sole trader
	Lack of time for planning business strategy
Business activities	Decision-making on - production inputs / inputs in the provision of services
	Decision-making on - production process changes / changes in the provision of services
	Decision-making on - the outputs of the production / outcomes in the provision of services
	Maximal possible use of sources
Finance	Ensuring the legal obligations
	Decision-making on the use of external accounting services
	Investment
	Maximal possible use of sources
	Enforceability of receivables (bad debts)
	Setting of the payment deadlines
Relationships with suppliers and customers	Communication – use of modern technologies
	Setting of appropriate relationships with the suppliers
	Setting of appropriate relationships with the customers
	Difficulties with obtaining larger contracts

Source: author

5. Decision-making process of the sole trader – case study [8]

Selected business unit is the sole trader offering his services in the construction sector – processing of construction projects and related documentation. He has close relationships with four other sole traders that offer similar type of services. This represents the possibility of cooperation and the possibility to ensure advice almost immediately if necessary. Financial issues are ensured by cooperation with the external accounting company.

The sole trader thinks about innovation suitable for his business. His aim is to optimize costs. He also wants to improve the quality of final services (by the use of modern technologies). His funds are limited, but he doesn't want to use external financial sources (bank loan, ...). All investments will be financed using prepared financial funds (300 000 CZK). Which suggested alternative should be selected in this case and why?

Decision-making process of the selected sole trader, according to [11]:

1. Objectives definition.

- Cost reduction.
- Improvement of the final services quality.
- Extension of the service portfolio.

2. Development and consideration of all alternatives.

Alternatives:

- 1 – No changes: no additional costs – no time optimization – no additional benefit.

- 2 – Process innovation 1:
 - additional costs (technologies and other inputs) – time optimization
 - additional benefits (higher amount of processed contracts, better customer services
 - increase in customer satisfaction).
- 3 – Process innovation 2:
 - additional costs (technologies and other inputs) – time optimization
 - additional benefits (higher amount of processed contracts, better customer services, increase in customer satisfaction).

Types of investments:

- A1 – No investment.
- A2 – Purchase of new hardware and upgrade of existing hardware.
- A3 – Purchase of software.
- A4 – Entrepreneurial education.
- A5 – Website creation.

All alternatives involve different types of investments. Alternative 3 involves also the investment A5 that is not involved to evaluation of the alternative number 2. This is caused by the need to offer the sole trader alternatives that bring similar type of improvement with different demands on financial resources. The suitable alternative has to be selected and implemented in a short-time period and the sole trader has prepared limited amount of money.

3. Evaluation of selected alternatives.

Tab. 4 Selection of suitable alternative

Alternative	Type of investment	Investment costs (t_0)	Total investment costs (t_0)	Investment income (t_{10})
1	A1	0 CZK	0 CZK	0 CZK
2	A2	150 500 CZK	250 000 CZK	384 000 CZK
	A3	74 500 CZK		
	A4	25 000 CZK		
3	A2	197 000 CZK	350 000 CZK	576 000 CZK
	A3	112 500 CZK		
	A4	25 000 CZK		
	A5	15 500 CZK		

Note: t_0 ... year of the decision-making process; t_{10} ... ten years after the decision-making process

Source: author, according to [8]

4. Adoption of suitable alternative, its solution and implementation.

The most suitable alternative seems to be the alternative 2. This alternative doesn't require additional financial sources. It will change the quality and speed of production process using modern information technologies (new software for preparation of construction projects). This may enable future higher amount of annually processed contracts, greater customer satisfaction and bring additional income (profit). Implementation of this alternative leads to increase in competitiveness of the sole trader.

Implementation of the alternative 2 represents the first step of innovative process that will be followed by an effort to implement the product innovation. Implementation of product innovation seems to be more difficult (many complementary activities, higher implementation costs, etc.).

This case study uses primary data obtained on the basis of an expert interview conducted with the sole trader that operates in the construction sector. [8] Data was processed in accordance with the procedures described in the available literature. [11]

Conclusion

According to changes in market conditions, business units try to increase their competitiveness. The result of their effort, success or failure, depends on many factors (type of business unit, business sector, available sources, required outcomes, external conditions – legislative, etc).

Innovation as the driving force of the business represents one possibility how to increase the competitiveness of the enterprise successfully. The approach to innovative activities differ country to country. Situation in the Czech Republic is unique in approach to innovative thinking as to something that can enable future success of business activities, but is too financially demanding. [16] Innovation is often perceived more as a transfer of existing solution (idea) to different type of business. Situation is different according to size of the enterprise. Small and medium-sized enterprises have positive approach to innovative activities. They are trying to implement great amount of innovation each year. They prefer to finance all innovative activities using their company sources. Generally, the situation in innovative activities has become better and the future predictions are also quite optimistic.

Acknowledgements

This article was prepared under the project: SGS-2013-40 Paradigm of Development in the 21st Century and Its Impact on the Behavior of Economic Entities.

References

- [1] ANTLOVÁ, K., POPELÍNSKÝ, L., TANDLÉŘ, J. Long Term Growth of SME from ICT Competencies and Web Presentations. *E+M Ekonomie a management*, 2011, **14**(4): 125 – 139. ISSN 1212-3609.
- [2] ASOCIACE MALÝCH A STŘEDNÍCH PODNIKŮ A ŽIVNOSTNÍKŮ ČR. *Inovace ve firmách – výsledky průzkumu* [online]. Praha: AMSP ČR. [cit. 2013-01-04]. Available from WWW: <<http://www.amspace.cz/inovace-ve-firmach-vysledky-pruzkumu>>
- [3] ASOCIACE MALÝCH A STŘEDNÍCH PODNIKŮ A ŽIVNOSTNÍKŮ ČR. 16. průzkum AMSP ČR – *Názory malých a středních podniků na inovace a jejich financování*

- [online]. Praha: AMSP ČR. [cit. 2013-01-04]. Available from WWW: <<http://www.amspr.cz/16-pruzkum-amspr-cr-nazory-malych-a-strednich-podniku-na>>
- [4] BECK, J., HLAVATÝ, K. *Management inovací v teorii, praxi a ve výuce. Proinovační firemní kultura*. Praha: VŠMIE, 2007. ISBN 978-80-86847-27-6.
- [5] BUSINESS VICTORIA – DEPARTMENT OF BUSINESS AND INNOVATION. *Sole Trader* [online]. Melbourne: BusinessVictoria. [cit. 2013-03-04]. Available from WWW: <<http://www.business.vic.gov.au/operating-a-business/how-to-start/business-structures/sole-trader>>
- [6] EURACTIV.CZ. *Inovacím v podnikání by nejvíce pomohla změna myšlení na školách* [online]. Praha: EU-Media. [cit. 2013-02-04]. Available from WWW: <<http://www.euractiv.cz/vzdelavani0/clanek/inovacim-v-podnikani-by-nejvice-pomohla-zmena-mysleni-na-skolach-010712>>
- [7] HOROVÁ, M., TAUŠL PROCHÁZKOVÁ, P. *Podnikatelská kultura, image podnikatele a jejich řízení*. Plzeň: ZČU v Plzni, 2011. ISBN 978-80-261-0012-6.
- [8] *Internal information provided by the selected sole trader in the construction sector* (West Bohemia), 2013.
- [9] LUKEŠ, M. Entrepreneurs as innovators: A multi-country study on entrepreneurs' innovative behaviour. *Prague Economic Papers*, 2013, 22(1): 72 – 84. ISSN 1210-0455.
- [10] MOLNÁR, Z., BERNAT, P. Řízení inovací v malých a středních podnicích (klastrech). *E+M Ekonomie a management*, 2006, 9(4). ISSN 1212-3609.
- [11] PETŘÍK, T. *Ekonomické a finanční řízení firmy*. 2nd ed. Praha: Grada Publishing, 2009. ISBN 978-80-247-3024-0.
- [12] SDRUŽENÍ CZECHINNO. *5 hlavních inovačních typů* [online]. Praha: CzechInno. [cit. 2013-02-04]. Available from WWW: <<http://www.czechinno.cz/inovace/definice-inovace/5-hlavnich-inovacnich-typu.aspx>>
- [13] SMALLBUSINESSPRO.CO.UK. *Sole Trader* [online]. West Midlands: SmallBusinessPro.co.uk. [cit. 2013-03-04]. Available from WWW: <<http://www.smallbusinesspro.co.uk/small-business-finance/sole-trader.html>>
- [14] TAUŠL PROCHÁZKOVÁ, P. Podnikatelský inkubátor jako nástroj podpory malého a středního podnikání. *E+M Ekonomie a management*, 2012, 15(3): 91 – 107. ISSN 1212-3609.
- [15] WEBFINANCE, INC. *Innovation* [online]. Fairfax: WebFinance. [cit. 2013-02-04]. Available from WWW: <<http://www.businessdictionary.com/definition/innovation.html>>
- [16] ZEMPLINEROVÁ, A., HROMÁDKOVÁ, E. Determinants of firm's innovation. *Prague Economic Papers*, 2012, 21(4): 487 – 503. ISSN 1210-0455.