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**IMPACT OF DIGITALIZATION ON THE INNOVATION
AND COMPETITIVENESS OF SME'S IN BULGARIA**

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Abstract

Faced with new dynamic business models and increasing competition in markets, many small and medium-sized enterprises currently face the need for a comprehensive overhaul of previous tactics and strategies. Digitalization plays a key role in this revision. The majority of enterprises in Bulgaria see in digitization a way to optimize the use of resources, automate production, and improve their interaction with customers and suppliers. Digitalization is a factor that influences the innovation of SME's. It is important to see it as a list of choices where there are competing requirements that need to be balanced. The main objective of this development is to clarify the nature and specificities of digitalization, to explore the impact of digitalization on innovation and the competitiveness of small and medium-sized enterprises and to propose a model to increase competitiveness by increasing innovation activity based on digitalization in SME's. The main research methods used in the development are contingent analysis, method of analysis and synthesis, intuitive and systematic approach.

Keywords

Digitalization – Innovation – SME's – Competition – Competitiveness – Development

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Introducción

Over the past few years, SME's have been closely monitoring trends and technological developments, seeking to find more adequate and innovative solutions to existing processes, but also to open new horizons and find new applications of technology in business. Digitalisation can serve to accelerate previous slow processes, for example in the document processing of enterprises. Also, the digitisation of enterprises will lead to greater transparency of prices, quality and delivery time, while innovation will change the way of production and lead to a change in market demand. Digital interaction between different SME's and their customers will take place more quickly. With the help of digitization, managers can also comply with individual requirements of users. Digitalization is the tool that provides access to information in the global network and thus leads to the creation and implementation of new forms and standards for the protection of copyright and intellectual property.

Characteristics and features of the concept of 'digitization'

In the second half of the twentieth century, the world underwent a technological revolution, the impact and consequences of which were commensurate only with those of the industrial revolution. A new kind of economy, society and culture, based on knowledge and information and communication technologies, were born, and called by some researchers by the term introduced by Kastels - "informationalism."¹ According to Fidlur, "this economy works with a new type of language – the digital one, which uses sequences of numbers through which information is encoded and processed. This language was created to facilitate communication between machines, and the first signs of its appearance can be found as early as the middle of the XIX century."²

Bonev mentions that "the rise of the new economy began with the development of computer technology after World War II (in terms of both hardware and software), the creation of the Internet (but also of numerous other wired and wireless networks and protocols for the transfer of information) and was based on some policy initiatives for the liberalization of world trade. All these prerequisites managed only within a few decades to provoke a real revolution, which gradually began to cover all sectors of the economy and reached almost all corners of the world – digitization."³

Freeman points out that "the techno-economic paradigm is a sum of technical, organizational and management innovations, the advantages of which can be found not only in a new range of products and systems, but above all in the dynamics of the relative cost structure of all possible production resources. In any new paradigm, a specific resource or resource group can be described as a "key factor" in this paradigm, which is characterized by declining relative cost and ubiquitous availability.

The current paradigm shift can be seen as a shift from technology based mainly on cheap energy resources to one based primarily on cheap information resources resulting from advances in microelectronic and telecommunications technology."⁴

¹ Manuel Kastels, *Vuzhodut na mrezhovoto obshtestvo – Tom 1* (Sofia: LAB, 2004), 29.

² Roger Fidlur, *Mediamorfoza* (Sofia: Kralitsa Mab, 2005), 101.

³ Hristo Bonev, *Ikonomicheski predpostavki za digitalizatsiyata na filmovata industriya* (Sofia: NBY, 2009), http://ebox.nbu.bg/mas_com10/view_lesson.php?id=81

⁴ Manuel Kastels, *Vuzhodut na mrezhovoto...* 76.

In Pierce-Moses's opinion, "digitization is the process of converting analog material into binary electronic (digital) form, especially for storage and use in a computer".⁵ Whitson and David define digitization as "a process of making traditional library materials that take the form of books and documents and convert them into the electronic form where they can be stored and processed by a computer".⁶ On the other hand, advanced economies enjoy greater benefits for economic growth than digitalization, such as growth and productivity, but have less profit in terms of jobs compared to developing economies. The main reason for the different effects of digitization is the economic structures of developed and emerging economies. Since this definition seems to focus on the physical process of transformation, it abandons many other important changes that are happening in the modern world. For example, today we are stepping into a world where autonomous vehicles (or driverless cars) could soon revolutionize transport. None of these definitions of digitization takes into account/covers these changes or newly popular areas of drones and e-commerce.

The term "digitization" was first used in scientific developments in the middle of the XIX century. Nowadays, the term generalized means turning interactions, communications, business functions and business models into digital ones, which are often reduced to a combination of digital and physical ones, as well as in repeated customer service. In general, digitalization is seen as a path of transition to digital business and digital transformation, as well as the creation of new – digital – revenue streams and offerings, and all this requires change. The change comes with the introduction of innovation in manufacturing and, accordingly, the market. Digitized content can be shared through different channels, such as regular websites and blogs, TV, smart phones and tablets, etc. It can take various forms such as GPS coordinates indicating the location of objects, descriptive text in written or spoken electronic format, digital music and photos, films, videos and video tutorials, electronic maps, etc.:

- A meaningful model;
- Digital conversion concept;
- Technological solutions;
- Budgeting and financing;
- Human resources;
- Partnerships.

Digitalization undoubtedly plays a key role in the development of new business models, all the more so in the face of increased global competition and various political and protectionist challenges facing companies. For a brief period, the technologies have transformed people's daily lives, made users more knowledgeable and taught businesses how to work intelligently.⁷ Digital technologies and the opportunities they provide for growth will be a major driver of economies in the future, as well as of the business units themselves.⁸

⁵ Richard Pearce-Moses, Digitization. In a glossary of archival and records terminology (Chicago: SAA, 2005), <http://www2.archivists.org/glossary/terms/d/digitization>

⁶ Saima Khan, "Digitization and its impact on economy", International Journal of Digital Library Services Issue 2 Vol: 5 (2015): 140.

⁷ Dinka Zlateva and Radoslav Vladov, "Innovative aspects of online marketing", Macedonian International Journal of Marketing Vol: 6 (2017):32 <http://bit.ly/36eDhYk>

⁸ Proekt "Digitalni MSP - Stimulirane prinosa na MSP v realiziraneto na politikite za digitalizirane na ikonomikata". BG05SFOP001-2.009-0002-C01. (Sofia: 2019), 5. Bulgarian chamber of commerce and Industry <https://www.bcci.bg/bulgarian/projects/DigSMSe/Analysis.pdf>

Digitalization is a transformation involving fundamental changes in business processes, organizational capabilities, operational procedures, as well as in entering new markets and improving products. Digital transformation highlights the impact of the IT sector on organizational structure, information flow and focuses more on technological changes in enterprises. Digitalization also affects innovation and the entire economy of Bulgaria in different ways, for example as new business models emerge, businesses change the way they participate in innovation processes, and this offers opportunities and challenges to organizations related to innovative ecosystems. There is no doubt that the digitization process affects almost all aspects of the economy. This comprehensive transformation, especially in the field of activities around digital communication and digital media, has led to a wide range of changes in the economic and social universe. The traditional business model no longer covers all the needs of the modern consumer.⁹ Laptops and mobile computers, cloud (virtual)spaces, the internet as a whole, artificial intelligence and large amounts of data not only transform business activities, but also generate new business models that require new rigid strategies and influence innovation, competitiveness of consumers and society as a whole.

By digitizing the economy and small and medium-sized enterprises, it can be achieved:

- Easier communication between enterprises globally;
- Easier spread of materials and goods between SMEs;
- Unification of different markets into one whole;
- Getting up-to-date information on new technologies, innovations, etc.;
- Enhancing the competitiveness of enterprises;
- More customers and price up-to-date globally.

Digitizing the production of small and medium-sized businesses can lead to a large degree of intelligent automation of any industry, which will allow the free movement of industrial production in Europe and the world at large. Finally, digitalization supports better provision of public education and other government services. Here, the impact of digitalization is more pronounced in developing countries.

The impact of digitalisation on innovation and competitiveness of small and medium-sized enterprises

By digitizing in the organization, the company performs a kind of innovation. Since through it much of the documentation, information and communication begin to take place digitally and electronically. By introducing e-government into the administration, errors arising in the process of operation will also be cleared. The user of the services must possess the necessary, albeit basic, skills to access the service. Last but not least, connectivity between individual administrative authorities and the automatic exchange of information will contribute to the possibility for citizens and companies not to provide certain documentation, but to collect it automatically. This will not only simplify the daily lives of SME customers, but thus save time, money, and limit the possibility of corrupt practices. Businesses need to have well-equipped staff to meet the challenges of digitalization.

⁹ Dinka Zlateva, "Digital transformation of marketing communications", Journal of Economics and Management Vol: XVII issue 1 (2020):171. http://em.swu.bg/images/Spisanielkonomikaupload/Spisanielkonomika2020/_vol.XVII_issue_1_2020-171-181.pdf

Business digitization leads to an acceleration of business activities and processes, introducing new requirements to management knowledge. Online marketing is constantly positioned in the strategic vision of modern entrepreneurs as an opportunity to increase the pace of change. The new business development conditions also require requirements to increase digital marketing skills as an effective way to reach the market.¹⁰

Digitalization in the process brings countless benefits to small and medium-sized businesses, which are expressed in:

- Experience and knowledge;
- Cooperation with other enterprises;
- Competitive advantages;
- Better marketing strategy and advertising;
- Quick and secure access to information from anywhere and at any time – the activity of small and large enterprises will not be affected by external circumstances;
- Financial and operational stability – the budget of the enterprise can be easily foreseen;
- One of the most tangible effects and benefits of digitization is a significant amount of money saved from:
 - rent or purchase of premises if necessary;
 - recruitment;
 - hardware, etc.
 - creating or purchasing software for managing documents and programs;
- Adaptability and connectivity with clients, counterparties and partners, etc.;

The digital business model of small and medium-sized enterprises creates opportunities to generate value in a new way using the advantages of the digital environment. Moving the enterprise into a digital environment facilitates the work process of employees and managers and thus they can pay attention to improving the organization itself. It is creative and non-standard thinking that helps to innovate or improve existing products produced by the enterprise. The fast dynamic enrichment of innovation in the field of digitalization already includes artificial intelligence, cognitive systems, and horizontal, and vertical system integration. Self-regulating factories, autonomous robots and other technologies each lead the world to a new series of significant new changes and opportunities. Digitalization enables the integration of heterogeneous information, with many times more possibilities for its processing restructuring, transfer, categorization and use. Of course, this also requires new standards, forms and ways to protect intellectual property. In case of digitalization and innovations introduced, the company receives competitive advantages, which increases its competitiveness among the other companies in the industry.

Increasing the competitiveness of SME's is driven by increased innovation activity of enterprises, and this is based on the degree of digitization in the enterprise. In the case of a partially or fully digitized enterprise, it is possible to increase innovation activity and the deployment of advanced products and innovations. In examining this link, and if it is found that there is no increase in innovation activity and the competitiveness of the organization, managers can establish what is due to what is due through the digitization of the enterprise itself (access to documents, analyses, costs, feedback, etc.).

¹⁰ Dinka Zlateva; Dilyana Yaneva and Viara Kuyrova, "Need of knowledge in digital marketing in entrepreneurial", Revista Inclusiones Vol: 6 (2019): 65.

The following Figure No.1 describes the elements in the link "competitiveness – innovation activity/innovation – digitization of SME's".

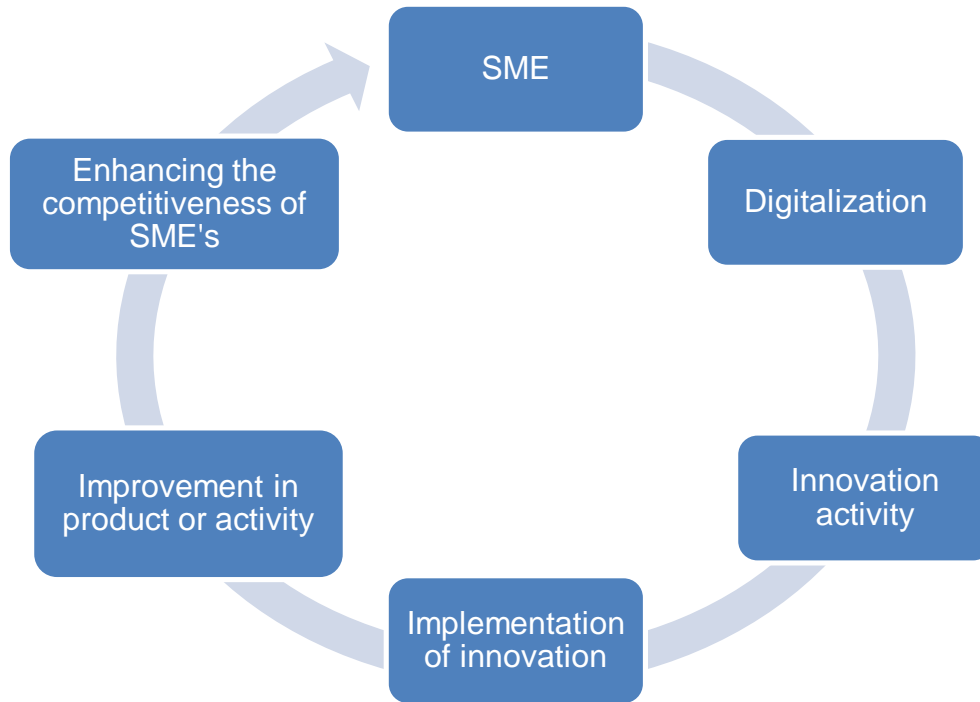


Figure 1

A model to increase competitiveness by increasing innovation activity based on digitalization in SME's

Source: systematization of the author.

The first necessary element for this relationship is the existence of small and medium-sized enterprises which have established themselves on the market and have the necessary experience and incentive for the development of the whole organization. Small and medium-sized enterprises are the driving force of the Bulgarian economy. They are more in number than large orgasms. In order for an enterprise to be competitive, it needs to have competitive advantages, especially aimed at the innovation activity of the enterprise itself. In order to achieve innovation activity, it is important that the enterprise keep up with the trends of the global or European market, i.e. the introduction of digitalization.

The second element of the model to increase competitiveness by increasing innovation activity on the basis of digitalization in SME's involved in the link is the process of digitization of SME's. Digitization includes fundamental changes in business processes, operational procedures and organizational capabilities, as well as entering new markets or exiting current ones. Although organizational transformation generally involves changes in strategies, structure and areas of power allocation, digital transformation highlights the impact of IT on organizational structure, routine programs, information flow and organizational capabilities to adapt and adapt to IT. In this sense, digital transformation focuses more on the technological root of information technology and alignment between them and business.

Furthermore, senior management plays an important role in organizational changes brought about by information technology, such as digital transformation. In particular, senior management's understanding of e-commerce and belief in its potential benefits are the key to the successful adoption and implementation of e-commerce. Any business, regardless of what area it is in, or how big it is, can reap real benefits from building an online presence. Before deciding where to buy, a very large number of potential customers will search for information on the Internet. If a business is not actively present in the online space, consumers will choose to buy from elsewhere. Even companies that are their end customers are other companies, a strong online presence, can play a key role in making serious trades and support the process of getting new prospectuses. Moreover, if business owners are effectively taking advantage of the opportunities of digital technologies, they can easily reach a larger range of customers, increase their sales and profits.

Once the digitization has taken place in the activity of the enterprise, the innovation activity of the company itself is improved. This is the third element in the relationship between digitization – innovation – competitiveness. The innovation activity of SME's reflects all innovation activities aimed at market realization. It can be summarized that the innovation activity of the enterprise is a complex concept that is based on quantitative and qualitative indicators that define the parameters of product innovations carried out in the framework of innovation activities in the organization. After the creation of an innovative product, it is time for its introduction to the market among other products.

The fourth element of the link is the implementation of innovation. Here, the organization's efforts are aimed at placing the product on the market. The implementation is carried out through promotion among the clients and future ones. This is most easily achieved through the digitization of the organization, i.e. easier through the SME website, social media ads, banners, etc. It is of great importance to make an accurate calculation of the retail and wholesale price. Finally, SME managers need to seek feedback from consumers and their product satisfaction. If there are more guidelines and recommendations for product improvement, it is necessary to move on to the fifth element of the process, and it is improving and improving the product offered by SME's on the market.

The improvement of the product or activity of SME's is the penultimate element of the re-performance. Improving or improving the product is one of the essential factors in increasing the competitive advantages of enterprises. It increases the competitiveness and financial stability of the organization because it is an important milestone in the implementation and validation of market innovation. High product quality and maximum satisfaction of loyal consumers are important.

Enhancing the competitiveness of SME's is the last, sixth element of the model to increase competitiveness by increasing innovation activity based on digitalization in SME's. When implementing each of the elements listed so far in the link, it can be said that SME's increase their competitiveness on the basis of the innovation activity and digitization of the organization. The increase in the competitiveness of enterprises and their market success are due to continuous innovation and improvement of productions and technological changes. Therefore, the drive to create the best possible conditions for innovation is one of the main drivers in governance and structural reforms. Only by providing the necessary conditions for accelerated innovation, through the organization of modern research, the provision of highly skilled labor and adequate business infrastructure, can high competitiveness and the rapid deployment of digitalization in SME's be relied upon.

The reality of today's global health crisis (COVID-19) has put businesses facing unsuspecting challenges and difficulties. Especially for small and medium-sized businesses, falling into the trap of ambiguity and uncertainty has led to hasty and unanswered decisions to cut staff and cut any "unnecessary" costs. Today, the world holds on to the ability to communicate and do business through the Internet more than ever. The digitization of a company has become the number one priority for many small and medium-sized business owners. By digitizing business, commercial and marketing processes, the enterprise is less dependent on geography and rapidly changing situations and upheavals like today's ones. For a long time, investment in system marketing, in a well-ordered trading strategy and in optimization of business processes in a company, is considered secondary and insignificant for success in the long term. But today it's not enough. Small and medium-sized enterprises need to be not only existing in the real market, but also digitized completely. This helps to implement and create innovation, improve competitiveness, gain more competitive advantages, increase loyal customers (through online "baskets"), increase financial reserves and increase the stability of the enterprise.

Conclusion

Digitalization is the process of introducing all information and documentation of the enterprise, of advertising, of products offered to the enterprise in a digital one. This is a process of moving to a digital business. Digitalization is a term describing the gradual transition of existing economic and social systems in the digital age. Transforming the business model through digital modification of the business is a new digital business and digital globalization. These processes proceed by adding digital content to existing products and services and introducing new digital solutions. The digitisation of services accelerates globalisation. Multinational companies use it to reduce the cost of managing human resources, finance, manufacturing and design through global outsourcing. In emerging high-tech companies, digital technologies enable globalization in the first years of their emergence. Based on the literary overview of the nature and specificities of digitalization and the research done on the impact of digitalization on the innovation and competitiveness of small and medium-sized enterprises, we can draw the following main conclusions:

First, digital transformation is the ongoing process of creating a business ready to operate in a changing digital environment and cope with rapid and continuous changes.

Secondly, digitalization is a prerequisite for the implementation of innovations in the enterprise and by it, expressed in the preparation in reports and archives, improved marketing strategy, security, improved financial stability, the creation of new organizational - management processes, the creation of new production processes, the creation of new partnerships and the facilitation of human capital in the process of work, etc.

Thirdly, the benefits of digitization of small and medium-sized businesses increase with each digitization and among them are simplification and optimization of existing activities, increasing employee efficiency, better conditions for transparent communication and positive corporate culture, improving the conditions for creating innovations in the company, etc.

Fourth, digital transformation is a strategic process in which digital tools and technologies are used (responding to growing business challenges) to create entirely new processes or to build on existing ones. It helps to make the processes of the organization (from the lowest to the highest level) transparent, and their information can be used to gain a better insight. This also has a positive impact on the very creation of products and services and improves the user experience with them.

Fifth, through the introduction of digitalization in SME's, they are practically implementing innovation or innovation. Digitalization influences innovation by facilitating innovation activities, administrative, technological and advertising activities. Hence this gives preference to competitors and more competitive advantages, which increases the competitiveness of the organization.

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