THE ROLE OF INNOVATION IN THE GROWTH OF THE COMPANY: A CASE OF THE EMERGING COUNTRY

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Abstract

Major technological changes, the development of management, and its functions have influenced companies to launch more and more innovative products and services every day, even if these are inventions or improvements in their specific products or services. Innovation is a difficult process, but very valuable and effective for achieving the intended results. Knowing that Kosovo has had a difficult history in the recent past, from this paper we can see that there has been a pretty good technological development and an increase in knowledge by managing quite well the knowledge that has served in the establishment level of service and production, attracting foreign investors, and thus influencing a better economic development thanks to innovations from the above factors. This study examines all types of innovation whether they are product or process and service including their forms which are incremental or marginal innovations and any other form related to innovation and in any form that has influenced or is expected to positively affect the performance of the organization. These conclusions could also be used for the purposes of any business plan analysis for opening a new business or expanding an existing business, comparing search results with current ones and new business expectations. Very little research has been done on the impact of innovation on the growth of firms in Kosovo, but this paper shows concretely this impact by understanding them closely through interviews conducted with firms.

Keywords: Innovation, Impact, Kosovo, Enterprise, Growth, Technology, Development, Employment

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1. INTRODUCTION

All companies that want to survive in a competitive environment must develop new products and services to adapt and stay up to date and competitive, so innovation responds best to this sentence, as innovation is making things completely new whether products or services or things that have been done but in a much better way. The best innovations are made when product and service innovations are combined, thus paying attention to the two forms of business operation for those businesses that best suit this form.

This paper investigates how innovations affect the performance of firms in Kosovo, whether innovations have increased or decreased the number of employees, or have affected the facilitation of physical work (e.g., in construction companies). Identifying innovation opportunities is a specific tool for entrepreneurs. For this tool to be used effectively in a proper institutional environment, it is necessary to take advantage of entrepreneurial opportunities. Nowadays the competition is extremely high in every sector of the business, therefore, this has made that every day more and more firms try to find solutions to be one step ahead of the competition by creating as many innovative products and services. What are the opportunities for companies in Kosovo for innovations, can they survive even without innovating either in products or services? The essential and main problem is whether the innovations affect the growth of the value of the enterprise or not, as well as after the application of the innovations, whether the firm generates more income or not. Also, how do international technological innovations affect the development of firms in Kosovo, are they used by firms, as well as the problems that firms face with staff training. Another very problematic issue is the impact of these innovations and advanced technology on the number of employees in the enterprise.

Investors need to understand the risks that a company takes to create value and they want to have information on the sustainability of current value creation strategies (Beretta & Bozzolan, 2004). Top managers must, therefore, be in a position to assure investors that risks and uncertainties are well managed (El Beshlawy & Ardroumli, 2021; DeLoach, 2000). This requires not only the implementation of firm-wide risk management systems but also effective communication about risks that affect a firm's strategies (Trabelsi, 2021; Beretta & Bozzolan, 2004; Maingot, Quon, & Zeghal, 2013).

Innovation is mostly an opportunity even for microfinance risk mitigation, considering its pervasive impact on risk factors (Moro Visconti & Quirici, 2014). When risks are complex and when the regulatory environment is strong, the creation of a risk committee becomes necessary and a risk management committee can help to make the profile risk more intelligible to the board (Yale, Grove, & Clouse, 2013).

Since the turn of the millennium, the pervasive adoption of digital technologies and digitally-enabled infrastructures has fundamentally changed the nature of products and services, in many cases transforming entire industries.

The new constant in business is "change", nothing else is constant. What companies that have refused to follow this trend can do is to learn from the past, and look to the future. There is no definition of change, but one of the goals of this class is to make you think, and when the time is right, to attack.

Since "change" is the keyword, there is necessarily a correlation between the performance of companies and the pace of new products they bring. In the case of mature products, design, performance, and service are what make the difference.

There is a set of strategic advantages through innovation:

- innovation — unique competitive advantage;
- restoring new skills;
- rewriting the basis of an industry;
- complexity;
- automation;
- continuous gradual innovation.

2. LITERATURE REVIEW

Innovation is strongly related to the invention, but even though they coincide, they are not the same. An invention is essentially a creative idea. Innovation takes that idea and puts it into action. Innovative activity encourages the development of new ideas but also turns them into usable products or services that the consumer needs (Adair, 2010).

Innovation is not yet a discipline like engineering or accounting. We are in an early transition seeing innovation as a discipline with competencies that can be learned. Till now, there have been no clearly defined areas of competence involving innovation (Matthews & Brueggemann, 2015).

Most innovative ideas do not become successful new products. Many studies suggest that just one in a few thousand ideas results in a successful new product. Many projects do not result in potential technical products and of those that do, many fail to earn a commercial return on investment. According to a study by Schilling (2013), that combines data from previous studies, a successful innovation takes about 3,000 raw ideas to produce a new and successful commercial product.

Innovation, directly or indirectly affects economic growth, as such a chain is created, starting from the biggest sales by the company, which affects the improvement of staff conditions. And, in this form, the company by paying more taxes affects to pour more funds into the state coffers, so from these elementary indicators, it can be seen that it has a great impact on economic growth.

The presence of powerful shareholders, such as blockholders, suffices for CEOs to turn to earnings management as a low-cost alternative to improving short-term performance. This interpretation complements the argument advanced by Shleifer (2004) that competitive pressures contribute to the rise of aggressive corporate accounting practices as managers face powerful incentives to drive up their share prices.

When corporate ownership and control are separated, information asymmetries arise between the uniformed principal (investor) and the informed agent (manager). Within this principal-agent conflict, the communication of risks faced by the entity is crucial within a corporate governance context, as investor decisions concerning a company are mainly driven by the evaluation of chances and especially of risks regarding the future prosperity of the company (Theis, 2012).

Innovation is not a new phenomenon. Undoubtedly, it is as old as humanity itself. There seems to be something fundamentally — "human" about the tendency to think of new and better ways of doing things and to try them in practice. Innovation is a key factor of economic growth and performance in the globalized economy.

The relationship between innovation and economic growth has been well studied. However, this does not mean that it is well understood. Innovation brings new technologies and new products that help address global challenges, new ways of producing goods and providing services, increase productivity, create jobs, and can help improve the quality of life of citizens.

Below we can see what innovation consists of, which, without these elements, cannot be called as such. The first set consists of these four sources:

1. The unexpected — Unexpected success, sudden failure, unexpected external event.
2. The incongruity — Between the reality that is currently and the reality that is supposed to be or "should be".
3. Innovation based on process need — The importance of need as a source of innovation is captured in the proverb: "Necessity is the mother of innovation".
4. Changes in industry structure or market structure — That take everyone by surprise. Such changes provide opportunities for innovators and a significant threat to those who misread the changes.

The second set of resources for innovative opportunities is a set consisting of three sources that includes changes outside the enterprise or industry:

1. Demographics — Changes in population.
2. Changes in perception, mood, and meaning — Changes in perception are really not changes at all. Facts do not change but people's perceptions of facts change, which has the same powerful effect. The fashion industry relies heavily on changes in perception. Clothes from the previous generation do not change, but our perceptions of them change. We consider yesterday's fashion clothes as out of fashion today, comically. Changes in perception give entrepreneurs a lot of new openings.
3. New knowledge — Scientific and unscientific. The most famous innovations are often based on new knowledge or inventions (Drucker, 1985).

3. RESEARCH METHODOLOGY

This research, in addition to the theoretical part, also has the empirical part, which was conducted with market research to examine in more detail the selected topic. Literature and in-depth interviews with economics experts and heads of entities have served as the basis for building the questionnaire, as a very important tool in primary data collection.

The secondary data are the result of a review of extensive and contemporary academic literature, foreign and domestic, regarding the regulation of standards in the work environment, forms, and ways of innovation.

The population for this research is about the businesses with the largest number of employees in the Republic of Kosovo, and as a sample will be taken 20 businesses with the random method.

The researchers will try to give answers to the hypotheses presented through the obtained results from the authors' elaboration.

Various companies were interviewed, both in terms of activity and organization, throughout Kosovo.

Very little research has been done on the impact of innovation on the growth of firms in Kosovo, but this paper shows concretely this impact by understanding it closely through interviews conducted with firms.

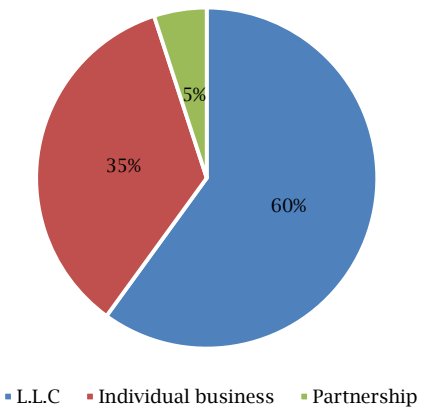
4. RESEARCH RESULTS

Knowing the fact that Kosovo has more service enterprises than manufacturing companies, we can easily understand that the participation in the questionnaire of service firms is higher (70%) than that of manufacturing firms that make up only 30% (Figure 1). In this paper, research has been done in the entire territory of Kosovo, but more in the region of Pristina, where about 45% of the questionnaires were completed, and in that of Peja with a participation of about 30%.

Below are the hypotheses that best respond to this paper, all hypotheses are in coordination with the research instrument and, as such, we have tried to extract data and facts as real and true as possible.

Although individual businesses make up the largest number of firms in Kosovo, we have developed about 60% of the questionnaire with limited liability companies (LLC), due to greater opportunities for research and that the research has better content, but even in individual businesses, a considerable number of interviews have been conducted, which should also give us accurate results (Figure 1).

Figure 1. Forms of organization of the interviewed businesses



Source: Authors' elaboration.

4.1. Hypothesis A

Special hypothesis A: If innovations find application in the company, then they affect the increase of the company's profit.

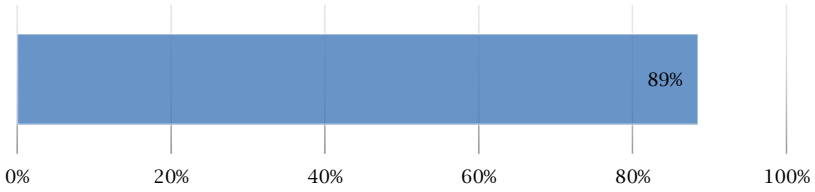
A1. Individual hypothesis: If innovations find application in companies, then they affect the growth of production or service and sales.

A2. Individual hypothesis: If innovations find application in the company, then the company constantly introduces and improves products.

Independent variable: Firm growth.

Dependent variable: Application of innovations in companies.

Figure 2. Accuracy of the *Hypothesis A*

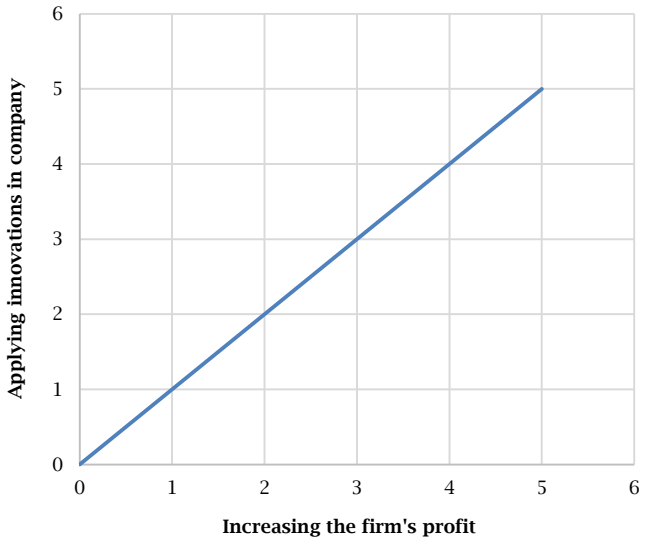


Source: Authors' elaboration.

For the first hypothesis (*Hypothesis A*), 10 questions were compiled in the research instrument, drawing very important conclusions if the innovations directly affect the growth of the firm, and the research shows that the first hypothesis is 89% correct (Figure 2). So the first hypothesis confirms that innovations increase the company's profit through the impact of increasing the offer or service, and continuous improvement of products and services. This is predicted by the six-sigma method, which is a program designed to reduce defects for lower costs and to meet customer satisfaction.

The results show that firms have a high impact from innovations in their operations that result in increased profit margins, increased production, improved services, increased sales, so the more innovations are present in the company, the more they affect the firm's profit growth (Figure 3).

Figure 3. Innovations' impact on company's profit



Source: Authors' elaboration.

4.2. Hypothesis B

Special hypothesis B: If innovations find application in the company, then the physical work of the employees is facilitated.

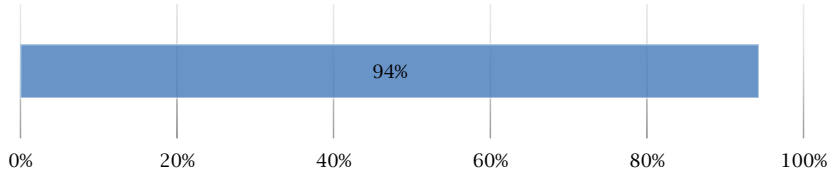
B1. Individual hypothesis: If innovations find application in companies, then it becomes difficult to work on innovative technologies.

B2. Individual hypothesis: If innovations find application in companies, then they affect the reduction of the total number of employees.

Independent variable: Staff care.

Dependent variable: Application of innovations in companies.

Figure 4. Accuracy of the *Hypothesis B*



Source: Authors' elaboration.

The special hypothesis (*Hypothesis B*) is about the role, impact, and importance of human resources in companies and their growing impact through innovation. This hypothesis consists of 8 questions from the research instrument and we have achieved the following results. As seen from Figure 4, the second hypothesis turns out to be 94% correct and shows that innovations also affect staff by facilitating either physical or mental work. So, 94% of the interviewed firms think that innovations facilitate the work of employees, but this has some drawbacks. Based on research and interviews with companies, these innovations are reducing the number of employees, but in some cases of introducing a new work process, the company needs more employees. Also, the staff should be trained to use new technologies, which is necessary, but on the other hand, it is an expense for the company.

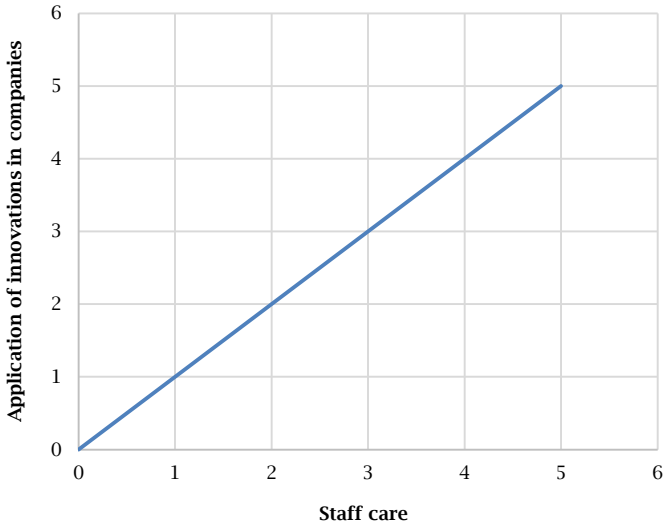
So, as seen from Figure 5, the application of innovations in companies also affects the well-being and care of employees, facilitating their work.

4.3. General hypothesis

General hypothesis: If innovations find application in the company, then they affect the growth of the company.

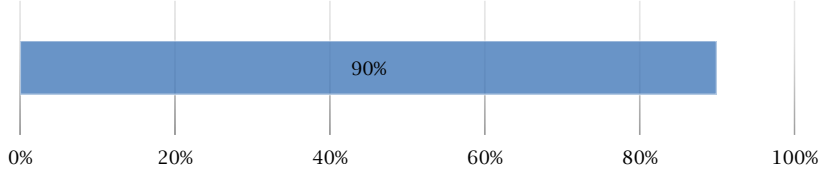
Based on the analysis and questionnaires conducted in various companies throughout Kosovo, this hypothesis is 90% correct (Figure 6). The essence of the work turns out to be that companies should have special care and treatment for the future of the company regarding the development and presence of innovations.

Figure 5. Innovations' impact on the physical work of employees



Source: Authors' elaboration.

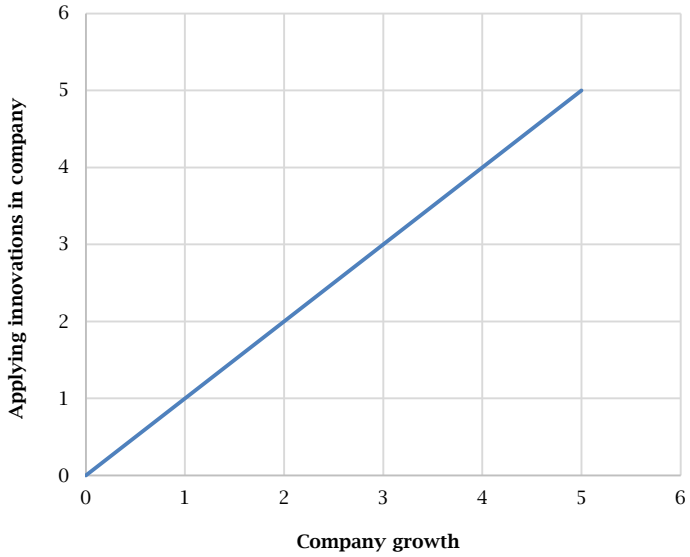
Figure 6. Accuracy of the general hypothesis



Source: Authors' elaboration.

As seen in Figure 7, the more innovations are applied in the company, the more they affect the growth of the company, which means both an increase in profit and an increase in the value of the company in general.

Figure 7. Innovations' impact on growth of the company



Source: Authors' elaboration.

5. DISCUSSION OF RESULTS

Manufacturing and service companies have differences between them, mainly since those service companies have direct contact with the customer while manufacturing companies are more with firms, but innovations in these two types of companies are important.

There are five main differences between service companies and providers: the vulnerability of their production; production on demand or inventory; consumer-specific production; intensive or automatic operations; and the need for a physical production location. However, in practice, manufacturing services and organizations have many characteristics.

Many manufacturers offer their products, and service organizations offer their services but both require qualified people to create a profitable business.

Physical goods

The main difference between service firms and manufacturers is the vulnerability of their production. The production of a service firm, such as consulting, training, or maintenance, for example, is inviolable. Manufacturers produce physical goods that consumers can see and touch.

Inventory levels

Service firms, unlike manufacturers, do not hold inventory; they create a service when a customer requests it. Manufacturers produce goods for stock, with inventory levels aligned with market demand forecasts. Some manufacturers maintain minimum stock levels, relying on the accuracy of demand forecasts and their production capacity to meet demand on a direct basis. Inventory also represents a cost to a manufacturing organization.

Customer requirements

Service firms do not produce a service unless a customer requests it, although they design and develop the scope and content of the services before each order. Service firms typically produce a service tailored to customer needs, such as 12 hours of consulting, 14 hours of design, 10 hours of installation, and so on. Manufacturers may produce goods without the customer's order or a forecast of the customer's request. However, producing goods that do not meet market needs is a weak strategy.

Job requirements

A service firm recruits people with specific knowledge and skills in the service disciplines it offers. Service delivery is labor-intensive and cannot be easily automated, although knowledge management systems enable a degree of knowledge capture and exchange. Manufacturers can automate many of their manufacturing processes to reduce their labor requirements, even though some manufacturing organizations are labor-intensive, especially in countries where labor costs are low.

Physical location

Service firms do not require a physical production site. The people who create and deliver the service can be found everywhere. For example, global firms, such as Deloitte consultants, use communication networks to access the most appropriate service skills and knowledge from offices around the world. Producers must have a physical location for the production and maintenance of the stock.

The study shows that 92% of innovations have a positive and direct impact on the growth and development of the company in manufacturing companies.

6. CONCLUSION

The importance and definition of innovation can be explained from several aspects. From a consumer perspective, innovation means better quality products and better services, which together means a better lifestyle. From the aspect of businesses, innovation means sustainable growth and development, realization of big profit. For employees, innovation means new and more interesting work, which requires more mental skills and results in higher wages. In terms of the economy as a whole, innovation represents greater productivity and prosperity for all.

The role of innovation in economic growth and how governments can help translate innovation into new products and techniques that can help society meet the global challenges of the 21st century. EU integration is among Kosovo's top priorities. Therefore, large investments need to be made in preparing the country for EU membership — national legislation is aligning with EU legislation in all areas covered by EU law, EU standards should be applied in economic areas, political, social, and public administration reforms.

The main recommendation from this paper is that firms should have (or develop for those companies that do not have) a new level of management related to innovation management, and have a high commitment as these innovations directly affect performance and company growth, and profit, which are the main goals of every top manager or owner of various companies. Large firms in developed countries in the composition of their staff also have the innovation manager within the department of innovation management, and this should be practiced also in Kosovo.

In firms that follow a policy of innovation, where a substantial amount of information is produced and analyzed, the outside directors are not able to manage this kind of volume of specific information (Chouaibi, Boujelbene, & Affes, 2009).

So, the research showed that innovations have given positive results in most of the firms interviewed in Kosovo, making the firm have sustainable long-term growth, lower costs, and an easier job for workers. For example, in construction companies, the firm N.SH "Plus" claims that technological innovations have made the work and execution much easier. This firm implements many more projects than in previous years, or companies that have developed innovations in services such as e.g., Viva Fresh Sh.p.k., has won the QUDAL[1] award for the best quality in Kosovo and has expanded the network of markets throughout Kosovo, opening more than 80 retail stores.

Some of the negative effects as seen from the research are the costs that firms have for training staff to adapt to innovation, or in other cases when the company has to recruit new and willing staff who can be trained and in step with innovative developments.

When it comes to human resource management, a positive effect of innovation is the facilitation of physical work for employees, in various companies where physical work is required, as it is known that the company must be extra careful about human resources.

[1] QUDAL is a certification programme that, based on scientific market research using the innovative DEEPMA (Deep Mind Awareness) method, detects and rewards products and services on the market. Only products and services, assessed by consumers, with the highest scores in their market category may carry the prestigious gold QUDAL — QUality meDAL accolade.

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