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The approach of small and medium manufacturing and processing enterprises to innovation

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Abstract. Today's Kosovo economy, as well as that of the whole world, lives in an extraordinary dynamism, creating and using many new technical-technological and organizational achievements. The demand for innovation is a demand that, as soon as it is met, generates a demand for new innovation, a cycle that will not end. But what is the approach of some manufacturing and processing enterprises (small and medium) in the eastern part of Kosovo to innovation? The answer to this question is the purpose of this article. Research on innovations in Kosovo has been done before, but with a research focus in the district of Prishtina, but not in the eastern region of Kosovo, and there is a long time difference from recent research. The objective of this article is the current approach to innovation. The research was conducted through a face-to-face survey, in which 66 representatives of manufacturing and processing enterprises have participated. The analysis of the results, their comparison leads us to the conclusions and recommendations, information which can serve businesses, state decision-making structures and educational institutions, to compare theory and practice. The article gives to understand that continuous research in this area is an added value.

Keywords. Management; Innovation; Invention; Motivation.

1. Introduction

“One of the biggest mistakes managers make today is failing to adapt to the changing world” (ROBBINS et al., 2012).

Based on this fact, this research addresses the problem of implementing innovations in manufacturing and processing enterprises that aim to own the Kosovo market but also their positioning in the international market with their products.

On this topic in Kosovo, the OSCE in 2013 published research entitled: “Evaluation of the Innovative System of Kosovo”.¹ According to this research, the Kosovo Companies Survey is a business survey designed by the EBRD Investment Agreement and conducted by Ipsos Strategic Puls. The target group was innovative private (non-state) businesses, which had implemented at least one innovation between 2009 and 2011. This research has served as a stimulus for research, in order to compare the results of this research of that time with the results gained in 2018-2019.

The issue of SME innovations in Kosovo has been addressed by the government (Government Program of the Republic of Kosovo 2017-2021), from which the List of objectives of the

¹ OECD, Evaluation of the Kosovo Innovative System, March 2013

Ministry of Innovation and Entrepreneurship for the Government Program 2017-2021 has been drawn:

- Promoting innovation by sectors of the economy in the service of economic growth and development;
- Establishment of institutional coordination mechanisms between science, private sector and policy-making;
- Entrepreneurship development through training/consulting programs;
- Consolidation of the ICT fund and creation of funds for support of development sectors (with a focus on women and youth).

On the issue of innovation, regular surveys are being conducted in other countries, e.g. in Germany (Inno Monitor, 2017).

The topic of innovation is among the top topics of many authors, among others we can mention the sources addressed in this article (Hoffmann et al., 2016), (TROTT, 2017), (Poguntke, 2016), Georgy, 2010), (BIT Inovation), (Klaffke, 2019), (Schumpeter, 1934), (OSLO MANUAL European Commission, accessed 10-05-2020) etc.

To address the approach of small and medium enterprises to innovation in recent years, 66 companies have been surveyed in the fields of wood processing, metalworking, plastic door and window manufacturing, and meat processing, stone processing, beverage production, etc. Persons in leading positions in the enterprise were surveyed. The survey was conducted through face-to-face method, using open-ended and closed-ended questions. The data obtained are of qualitative and quantitative nature, but we will focus on the obtained qualitative results.

The results obtained show a high awareness of enterprise managers about their innovation and commitment to do their best in this area, which results in improving the current approach of enterprises with the situation analysed in the years 2009-2011.

The results obtained will serve to compare the theoretical approach with the practical one in the local reality, in order to take good examples and avoid bad examples from practice.

Given the fact that today's economy lives in an extraordinary dynamism, creating and using many new technical-technological and organizational achievements and that the demand for innovation is a demand that, as soon as it is met, generates a demand for new innovations, the demand is for continuous research in the field of application of new innovations, the publication of which results is a good source of information for orientation of state policies and business strategies but also a good source of literature for established studies.

2. Literature Review

Innovation as a phenomenon has found treatment in many scientific publications, treated by many authors. Until recently, the issue of innovation was treated as a whole, including broad areas of innovation, over time, we see that authors are now being profiled in specific areas such as: innovations in new products, new markets, in new marketing instruments, innovation in organization, innovation in communication and access to customers, etc., all of which are enriched with a greater or lesser dose of innovation in technology.

To facilitate the approach of the topic treatment, we will first address the issue of defining the terms Invention and Innovation.

While Invention is the creation of a new technology, a new process, a product that never existed before, etc., but which is not necessary to be commercialized, Innovation is achieved if the new innovative idea manages to be commercialized.

According to the Institute for New Economic Thinking, in its purest sense, "invention" can be defined as the creation of a product or the presentation of a process for the first time. "Innovation", on the other hand, occurs if someone improves or makes a significant contribution to an existing product, process, or service.

TROTT (2017), addressing the importance of innovation emphasizes that Corporations need to be able to adapt and evolve if they want to survive. Businesses operate with the knowledge that their competitors will inevitably enter the market with a product that changes the basis of competition. The ability to change and adapt is essential to survival. Today, the idea of innovation is widely accepted. It has become part of our culture - so much so that it verifies it to become a cliché. For example, in 1994 and 1995, 275 books published in the United States had the word “innovation” in their title (Coyne, 1996). But even though the term is now ingrained in our language, to what extent do we fully understand the concept? Furthermore, to what extent is this understanding shared? A scientist's view of innovation can be very different from that of an accountant in the same organization.

Given the importance of innovation different authors make the group of innovations in several categories. According to Schumpeter (1938) and according to the OECD Oslo Manual (2005) five types of innovations are mentioned: 1) Commercialization of a new product, 2) Application of a new production method, 3) Opening of a new market, 4) Using a new source of raw material or with semi-manufactured products and 5) Creating a new type of industrial organizing.

Later, Trott (2017) modified seven types of innovation, namely: Innovative Product, Innovative Process, Innovative Organizing, Innovative Management, Innovative Production, Innovative Commerce/Marketing, Innovative Service.

Familiarity with the types of innovations and their implementation, gives us to understand that Innovation means: survival, competitive advantage through innovations it brings to competitors, primates, as well as who makes the first innovation, it has the power.

In research conducted on Strategic Innovation Management (Georgy, 2010), in question 17: Which preconditions encourage innovation, in the first five positions, by respondents, were selected (in% of surveyed cases): Motivated associates (in 33% of surveyed cases), Qualified human resources (26%), Support from leading structures (21%), Error tolerance (18%), good internal information structure (18%).

The key to success in digital times lies in the overall ability to develop and adapt, and thus in an organization's skill/dexterity. This requires companies to maintain a stable market orientation and create work environments that promote the speed of management and innovation processes, as well as the use of knowledge (Klauffke, 2019).

Traditional companies are now increasingly using collaborative spaces to stimulate innovation processes or make high-space requirements flexible. Moreover, in recent years the so-called “digital distribution” has emerged. They offer creative spaces to work as a single company or together with other moderate actors in digital innovations (Klauffke, 2019).

Over time, the importance of customer value has increased more and more. Customer evaluation from the point of view of a provider and evaluation of all other business relationships have become even more important in business practice, and also, in research and teaching under the word “relationship management” or “relationship marketing”. How a provider deals with individual clients and customer segments is now widely discussed as customer management and is also recognized in teaching and academic research by a variety of analyses and publications. Moreover, the so-called “value-based management” has gained importance and is a preferred way of thinking in various areas of business administration, (Helm et al., 2017).

Innovation in business determines the heartbeat of the economy, and affects many disciplines in business management. “Innovation Management” and “Business Models” are among the established business research facilities. This shows that innovation, change, progress, business ideas and revenue models are especially important for practice and so is research. However, the term “business innovation” is not yet well established. Therefore, the question arises as to its focus and features of delimitation. The various aspects and points of contact of business innovation and interdisciplinary aspirations, make it necessary to sharpen the profile and the

field of research. A conceptually based understanding of business innovation should be based on identifying and explaining its essential dimensions and elements, their connections and interconnections in existing business areas (Hoffmann et al., 2016).

The difference between the usual previous Innovations and “Destructive” Innovations lies in the type of change. While previously known innovations have largely not radically changed markets, but above all have further developed them, destructive innovations include a complete restructuring or dismantling of the existing model. The main driver of change is almost always digitalization or is usually involved in the process. And changes are happening faster and faster at shorter intervals (Kümpel et al., 2019).

Dealing with future-oriented topics such as growth markets, innovations or strategies is an exciting challenge. Successful companies can master them well because they are very focused on customers and know how to systematically process relevant market information and adapt quickly to changing frame conditions. Their basic attitude is characterized by dexterity, dynamism and creativity. In this context, Corporate Think Tanks are an extremely useful format, on the one hand to systematically identify opportunities for the future and on the other hand to generate potential ideas, concepts or innovations. Specifically, this means forums, project groups or business areas, in which enterprises deal with future-oriented questions (Poguntke, 2016).

Our fast-moving time is shaped by challenges and changes, by founding ideas, innovations, and ever-new entrepreneurial approaches and ways of reacting.

3. Research Methodology

The methodology of this article is based on the treatment of primary data from the survey and secondary data using local and international scientific literature, various publications and research, as well as the analysis of laws and administrative guidelines, state policies in the field of innovation. This article mainly uses the qualitative research method, but based on the types of questions posed, we can say that the quantitative research method has also been used.

3.1 Research Instruments

Survey is used as a research instrument. The questionnaire contains open-ended and closed-ended questions. The survey will provide us with information about the characteristics of innovative manufacturing and processing enterprises (small and medium), what innovation activities they engage in, what obstacles they face, with whom they cooperate, and their opinion on what policy measures should be applied so that they become more innovative.

3.2 Data analysis

The data analysis was done with the GRAFSTAT program, with which the statistical and logical analyses were done, then the results were presented in the form of tables and diagrams, and finally the interpretation of the results was done, which served us to prove the research objectives.

3.3 Samples

The survey included small enterprises with 10-49 employees and medium enterprises with 50-249 employees. The sample includes 66 manufacturing and processing enterprises in the eastern part of Kosovo, in seven areas such as: wood processing, metal processing, production of construction products, agricultural products, food production and processing, production of beverages (alcoholic and non-alcoholic), production of textiles, cotton and paper, which are divided into 19 subgroups.

4. Empirical Research Findings

4.1 The data for surveyed enterprises

The largest number of surveyed businesses are in the field of wood processing (24.2%), a tradition carried from the past, which even today has proved successful. It is intended to include the most characteristic and representative businesses.

Table 1: The data for surveyed enterprises

The sector in which you operate:	Frequency	Percent
Brewery	1	1.5
Plastic doors and windows	6	9.1
Strawberry cultivation	1	1.5
Mushroom cultivation	1	1.5
Freezing food	2	3.0
Electrical equipment, sanitation and services	2	3.0
Wood processing	16	24.2
Stone processing	4	6.1
Paper and cotton processing	4	6.1
Metal processing	8	12.1
Meat processing	6	9.1
Greenhouse production	1	1.5
Packaging production	2	3.0
Bread production and other flour products	2	3.0
Seedling production	1	1.5
Non-alcoholic beverages production	3	4.5
Textile production	2	3.0
Tile production	2	3.0
Food oil production	2	3.0
Total	66	100.0

4.2 Types of innovations applied in the past two years

Only 3% were in the unfinished process of innovation. The most pronounced were product innovations in 98% of cases, followed by marketing innovations with 91% and in processes in 89% of cases.

Graph 1: Types of innovation applied in the past two years

Compared to research in 2013, we note an increase in awareness of the importance of all types of innovation.

4.3 The impact of innovation on profit (expressed in %)

The increase in the commitment to innovation has resulted in an increase in the impact on profit with a special emphasis on the category 31-50% in 42.4% of cases, compared to the previous research that was for the last category > 30% that was only in 12% of cases.

Graph 2: The estimated impact of innovation on profit (expressed in %)

Research results show that investing in innovation can quickly return in most cases.

4.4 External sources of financial support

46.97% of respondents answered that they did not have external sources of funding. There is a marked increase in financial support from the private sector, which was in 12.12% of cases.

Graph 3: Have you had financial support?

4.5 . Annual expenditures for the acquisition of external knowledge

Annual expenditures for the acquisition of external knowledge in most cases are small (45% of cases in the amount of 1,000.00 € - 10,000.00 € and in 33% of cases in the amount of < 1,000.00 €. This is justified by the fact that the purchase of equipment at cost also has the knowledge of their use.

Graph 2: Annual expenditures for the acquisition of external knowledge

4.6 The way to identify opportunities for innovation

The most common ways to identify innovation opportunities are the Internet, consumer advice and technology networks in 80-82% of cases, not underestimating other ways.

Graph 5: The way to identify opportunities for innovation

4.7 Motivational factors for innovation

Customer needs and preferences are the main factor for innovation (95%). Unlike previous research, employee motivation has increased significantly and is now the motivating factor for innovation in 83% of cases.

Graph 3: Motivational factors for innovation

4.8 Obstacles to innovation

Research gives to understand that in the field of innovation there are many obstacles, but the biggest is the lack of funds declared in 76% of cases and the high cost of innovation with 71% of cases. Expressed obstacles slow down the innovation process, but as research suggests, they hinder but do not stop it, because innovation is a prerequisite for existence in today's economy.

Graph 4: Obstacles to innovation

4.9 Partners with whom you have collaborated or you collaborate in the field of Innovation

The survey shows that these businesses lack cooperation with foreign universities (0%), while cooperation with foreign research institutions is low (9%). As a result, a strong partnership has been established with local consumers and research institutions and the universities of Kosovo.

This is justified by the fact that business owners have invested in the education of their heirs, and they have established good relations with their teachers, who in most cases cooperate with research institutes but also with national and international institutions in Kosovo, and especially as a consultant.

Graph 5: Partners with whom you have collaborated or you collaborate in the field of innovation

4.10 The main sources of intellectual services applied to innovation

Research shows that not every collaboration has paid off. The main sources of intellectual services applied for innovation were foreign consultants (45%) and local consultants (39%).

Graph 9: The main sources of intellectual services applied to innovation

4.11 Institutions we want to cooperate with in the future

The interest of the respondents for future cooperation in the field of innovation is considerable, but more pronounced is the desire for cooperation in the field of innovation with research institutes (61%), with universities (45%) and with buyers (45%).

Graph 10: Institutions we want to cooperate with in the future

5. Conclusions and Recommendations

From the results obtained after data processing, we can conclude that small and medium enterprises in the eastern part of Kosovo, have realized the importance of innovation for the success of the enterprise and therefore have taken appropriate measures to implement innovations of different types (Innovative Product, Innovation in marketing, Innovative Process, etc.), which have significantly affected profit growth, where in most, growth is over 30%.

Financial support has improved, but it is still low, while 46.9% of businesses had no support at all. At the same time, annual expenditures for the acquisition of foreign knowledge in most cases were below 10,000.00 €.

It has used numerous sources of information to identify opportunities for innovation, but in 76-82% of cases it was Internet resources, consumer advice and employee initiatives. This gives us to understand that the main motivating factor for innovation were Consumer Needs and Employee Initiative.

Throughout this process, respondents estimate that despite the positive changes, they face problems such as: lack of funds in 76% of cases, high cost of innovation (71), inadequate government regulation (64%) and other obstacles.

Enterprises have strongly cooperated with consumers and suppliers, but also with influential individuals and institutions in decision-making in financial support or in the provision of research services. They emphasize that they would like this cooperation in the future as well.

We recommend that the government legal regulations need to be improved, the access to public funds need to be improved too, and financial institutions need to be improved on favorable terms in order to increase investment in innovation and to be as attractive as possible.

We recommend continuous research in this area, but with deeper specifications, which will be an additional source of support for businesses, existing and future entrepreneurs.

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