INNOVATION MANAGEMENT: TYPES, MANAGEMENT AND INNOVATION PERFORMANCE IN ALBANIA

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Abstract

Purpose – The purpose of this study is to investigate the different types of innovation that are dominate in companies in the Albania services sector (telecommunication and bank), the praxis associated with the inquiry of innovation and their relationship with company performance.
Design/methodology/approach – The study is a conceptual one with detailed review of literature and descriptive research design. This study collected quantitative data from 16 banks and 89 companies of telecommunications in Albania using a self-administered questionnaire. The questionnaires have been answered mainly by owners of businesses and sometimes by accountants of businesses. The article proceeds as follows. Section two and three offers the objectives of the study and the rational of the study. Next section offers the literature review. Also we try to give the performance of innovation in our country. Section six offers analysis and discussion of results in the context of other contributions to the topic. The final section presents a summary and tentative conclusion.
Findings: Main findings show that more than 60% applies process and product innovation. Yet, these days Albania represents a deficit in innovation, with a poor performance, which becomes a handicap for the competitiveness of its enterprises. It ranks 123 out of 144 in Global Competitiveness Report 2012-2013.
Research limitations: The period of the study is for six months from June 2013 to January 2014. The firm reports if it has introduced at least one innovation in the period from 2010 to 2012.

Keywords: Innovation, innovation process, performance, innovation product

Introduction

In everyday life we always hear talking about new things for new products or services that have not previously existed or even for those products which have easily been improved. But there are a few people that can distinguish this thing. There are a few people which consider that these new things as innovation and so fewer are those who understand that innovation has become an inseparable part of our life. However this is just a temporary thing due to the fact that society in general (also even in Albanian) are aware of this fact, one more and one less, pertaining to the fact that how to develop those companies. Innovation involves acting on the creative ideas to make some difference in the area in which the innovation occurs (Davila et al, 2006). Innovation is defined as the successful implementation of creative ideas within an organization. Firm's performance is the appraisal of prescribed indicators or standards of effectiveness, efficiency, and environmental accountability such as productivity, cycle time, regulatory compliance and waste reduction. Performance also refers to the metrics regarding how a certain request is handled, or the act of doing something effectively.

Innovation is widely proclaimed as being of vital importance to achieve and maintain competitive advantage. At the same time, successfully internalizing new technology is seen as essential for maintaining competitive positioning and adapting to changes in the external environment.

Innovation is a major factor of economic growth and performance in the globalised economy. Innovation brings new technologies and new products that help global challenges such as health or the environment (OECD 2007) and innovation is important to help address global challenges, such as climate change and sustainable development (OECD 2007). Innovation, which involves the introduction of a new or significantly improved product, process or method, will increasingly be needed to drive growth and employment and improve living standards. This is true as well for emerging economies that look to innovation as a way to enhance competitiveness, diversify their economy and move towards more high value added activities (OECD 2010)

Research in this article aims to reconcile theory and practice around the adoption of new technology in service firms by looking at the drivers for the adoption of innovations in telecommunication and banking. Changes in telecommunication and banks' internal and external markets were selected because in the last quarter of the 20th Century this sector suffered the impact of regulatory changes, developments in information and telecommunications technologies (IT), changes in customer needs and new ways to price risk. As a result this article addresses the need of examining common drivers for the

adoption of new services (i.e. product innovations) and innovations in organizational function (i.e. process innovations) in financial services.

The article proceeds as follows. Section two and three offers the rational of the study and methodology. The research methods employed during semi-structured questions and archival research is then outlined in section four. Next section offers the literature review. The meaning and the importance of innovation contained this section. Also we try to give the performance of innovation in our country. Section five offers analysis and discussion of results in the context of other contributions to the topic. The final section presents a summary and tentative conclusion.

Rationale of the Study

This article is important to the companies in the telecommunication and banks industry to know how is used the innovation process and product in Albania Company. The results of this study would also be invaluable to researchers and scholars, as it would form a basis for further research. The students and academics would use this study as a basis for discussions on how innovation is applied in those companies, what type of innovation is applied in these sectors and how important it is for companies. The study would be a source of reference material for future researchers on other related topics; it would also help other academicians who undertake the same topic in their studies.

Research Objectives

The objectives of this research are to give the answer to those questions:

1. How is innovation performance in Albania country?
2. Do banking sector and telecommunication applies innovation in product, service or process and how important has been for the company?

Research Methodology

The study is a conceptual one with detailed review of literature and descriptive research design. This study collected quantitative data from 16 banks and 89 companies of telecommunications in Albania using a self-administered questionnaire. The questionnaires have been answered mainly by owners of businesses and sometimes by accountants of businesses. The period of the study is for six months from June 2013 to January, 2014.

Literature Review

Innovation has always been a wanted area for organizations in any country. Innovation is identified as the main driver for companies to prosper,

grow and sustain a high profitability (e.g. Drucker, 1988). Innovation can come in different forms, including: product innovation, organizational innovation, production innovation, management innovation, commercial/ marketing innovation, and service innovation (Trott 2008). The different types of innovations and their uniqueness may lead to different impacts on structure, strategy, and performance of the organizations (Damanpour et al. 1989). Innovation can also be clarified as either incremental or radical (Cooper 1998, Damanpour 1991, 1996, Camison-Zornoza et al. 2003). Radical innovation generally involves more risk (O'Conner and McDermott 2004). Creation of new knowledge in a firm involves risks (Teece and Pisano 1994, Howells and Michie 1997), which are difficult to assess. Exploratory innovations are radical innovations and are designed to meet the needs of emerging customers or markets (Benner and Tushman 2003, p. 243; Danneels 2002). They offer new designs, create new markets, and develop new channels of distribution (Abernathy and Clark 1985). Reciprocally, exploitative innovations are incremental innovations and are designed to meet the needs of existing customers or markets (Benner and Tushman2003, p. 243; Danneels 2002). They broaden existing knowledge and skills, improve established designs, expand existing products and services, and increase the efficiency of existing distribution channels (Abernathy and Clark 1985, p. 5).

The aim of this study is to analyze the Product and process innovations in Albania companies**.** There is a conceptual distinction between product and process innovations (Utterbackand Abernathy, 1975; Cohen and Klepper, 1996).

Product innovation deals with the production of new products and services to create new markets or to satisfy current customers. Process innovations allow firms to improve the quality of the products, or attain improvements in the efficiency of production. Through product innovations, the firm can gain a competitive advantage by differentiating its output and increasing the quality and variety of goods which allows it to increase demand and open up opportunities for growth. Product innovations are more focused on the market and are mainly customer driven, whereas process innovations are primarily driven by efficiency (Utterback and Abernathy, 1975). Additionally, product and process innovations are associated to different stages of industry development: product innovation in early stages of industry development, while process innovations in latter stages (Abernathy and Utterback, 1978). Therefore, classifying firms as "innovative firms" can be a very reductive perspective in understanding the impact of innovation.

Firms can implement different types of innovations (product or process) and, for each case, the capabilities and organization required by the

firm to innovate are very dissimilar and the effects on firms' output could differ. Contrasting with the results presented in management and industrial economics literature of the 1980's which supported the idea that firms should concentrate their efforts on one type of innovation due to the organizational issues, evidence from the last decades demonstrates that firms have increased product and process flexibility and interrelationship (Athey and Schmutzler, 1995; Pisano, 1997). Several empirical studies have also found that firms engaged only on process innovation had worst performance levels than firms that develop process and product innovation projects.

In 1993 an investigation of innovation in service firms was undertaken in France as part of a project for the Ministry of Education and Research (Gadrey et al., 1994). It included the banking, insurance, electronic information services and management consultancy industries and concluded that innovation was taking place in all of them. It was found that innovation activities were spread out throughout each organization.

The innovation process was generally unsystematic, but there was an increasing tendency to systematize and manage it. Some service firms had special innovation departments, but it was only in electronic information services that they had the character of R&D departments and were connected to science. In management consultancy, the innovation process was a collective one among the professionals. Institute of Statistics in Albania for the first time is doing a survey on innovation at private companies and public institutions.

Albania situation

Yet, these days Albania represents a deficit in innovation, with a poor performance, which becomes a handicap for the competitiveness of its enterprises. It ranks 123 out of 144 in Global Competitiveness Report 2012-2013. This puts in risk the competitiveness (ranked 78th out of 144 countries) and sustainability of economic growth and employment. However, Albania is ranked 62 and in terms of technological capacity.

In the Global Competitiveness Report 2012-2013, Albania is listed as a country in Stage 2 of development in the terms competitiveness. This indicates that the country is an efficiency-driven economy characterized by "efficiency enhancers" such as higher education and training; goods market efficiency, labor market efficiency, financial market development, technological development and market size. However, it still lacks the innovation and sophistication factors that characterize the Stage 3 innovation-driven economies. Albania has not yet reached the innovation-driven stage in which companies must compete by producing new and unique products using sophisticated production processes and innovation. According to the World Bank Report on Building Competitiveness in

Albania (2009), private companies '"technological capacity" to upgrade by absorbing existing advanced technologies is weak.

In technological readiness, Albania is ranked 62. Is there an indicator in which an economy adopts existing technologies to enhance the productivity of its industry? In today's globalized world, technology is becoming an important element for firms that are competitive and have prosperity. Access (including the presence of a suitable regulatory framework) and the use of ICT are included in this column as an essential component of the overall level of technology readiness.

Innovation and business sophistication in which the high standard of living and the development of competing economies through new and unique products are using the most sophisticated production processes and innovation. At this stage, Albania is ranked 102.

Innovation in Albania is ranked 123.

These results indicate that the Albanian economy, despite the progress made in recent years, its competition is (still) based on cheap labor power, low productivity reflected in low wages, while public institutions are required to be consolidated further.

According to Global Competitiveness Report 2011-2012, note that Albania innovation is ranked the last in comparison with other Western Balkan countries (table 1).

Table 1: Innovation in Western Balkan Countries

	Innovation and sophistication factors		Innovation	
Country/Economy	*Rank*	*Score*	*Rank*	*Score*
Albania	**102**	**3.18**	**123**	**2.58**
Bosnia and Herzegovina	108	3.13	104	2.84
Croatia	82	3.37	76	3.09
Montenegro	59	3.62	50	3.39
Serbia	118	2.99	97	2.90
Macedonia, FYR	104	3.14	105	2.81

Source: Global Competitiveness Report 2011-2012

Given government budgets constraints, it is evident that additional funding will have to come from international donors and the private sector, including foreign investors which might set up research facilities in Albania to develop tailor made products or technologies for the Albanian market. In fact, The National Strategy for Science, Technology and Innovation (NSSTI) specifically seeks to increase innovation in 100 medium and large private companies either through investment in own R&D or in partnership with

academic research institutions or foreign partners. But we can say that from our study 88% of respondents said that they have not received any public financial support for innovative activities by the government and 91% have not received support from the EU.

Analysis and Discussion

This study collected quantitative data from 16 banks and 89 companies of telecommunications in Albania using a self-administered questionnaire. The period of the study is for six months from May to November, 2013. The firm reports if it has introduced at least one innovation in the period from 2010 to 2012. If the answer to this question was no, it was asked if the firm had tried to innovate.

Product Innovation

The survey of 104 companies, in respect of innovation for this product is: 58.7% said they had introduced new goods on the market or significantly improved and 41.3% did not throw in the market for such a product (table 2). 52.1% have claimed to have introduced to the market new services or significantly improved (table 2). What should be noted is that all these companies expressed in product innovation that was necessary for a good performance of the company. This came as a result of more rapid technological developments and increasing society's dependence on technology and in particular the ICT (Information and Communication Technology).

Table 2: Product Innovation

	During the three years 2010-2012, did your enterprise introduce new or significantly improved goods?	*During the three years 2010-2012, did your enterprise introduce new or significantly improved services?*
Yes	58.7 %	52.1 %
No	41.3 %	47.9 %
Mean	1.38	1.25
Std.Deviation	.527	.478

The survey conducted, 66% of the questionnaires have said that for the development of product innovation has been mainly their company or parent company. This means that these companies for developing innovation cope with their funds without cooperation with other companies.

Process Innovation

During the three years 2010-2012, 60.6% of the companies introduced new or significantly improved methods of manufacturing or producing goods or services only 39.4% didn't introduce. 68.3% said yes for new or significantly improved supporting activities for processes (table 3).

This was due to the effects of globalization and the growth of information technology. It was the latter that had prompted the company to change their processes, because every company has the opportunity to be informed in real time about everything that happens around them. This gives them the ability to scale up and improve their processes.

Table 3: Process Innovation

	*During the three years 2010-2012, did your enterprise introduce new or significantly improved methods of manufacturing or producing goods or services**?***	*During the three years 2010-2012, did your enterprise introduce new or significantly improved supporting activities for your processes?*
Yes	60.6 %	68.3 %
No	39.4 %	31.7 %
Mean	1.38	1.32
Std.Deviation	.486	.468

The survey conducted, 72% of the questionnaires have said that for the development of process innovation has been mainly their company or parent company. This means that these companies for developing innovation cope with their funds without cooperation with other companies.

63% have said that the process of innovation has led to the reduction of cost per unit of production and 71% have said that the process of innovation have contributed significantly to improving the quality of products and services.

The tables show the mean, median and standard deviation. A large standard deviation indicates that the data points are far from the mean and a small standard deviation indicates that they are clustered closely around the mean. The practical value of understanding the standard deviation of a set of values is in appreciating how much variation there is from the average. From the analysis the standard deviation we can say that the standard deviation is close to the average.

Conclusion

Innovation is the key of success for many companies: this means that companies have great effect in the development of economy. By having a successful innovation we have successful companies that generate more revenue which means more money for the state pocket. But a successful innovation means not only for pleasure and state companies, but also better complement the needs, desires and consumer applications. So we have a closed triangle-State Customer-Company where everyone's wishes and needs. So as we see innovation brings fulfillment of needs and desires of all parties impartially.

There are a number of surveys that have recently been published which confirm this. We can conclude that innovation is an important driver

of economic growth, and all the benefits that this brings to individual nations. As regards the link between innovation and business performance, our review of empirical studies shows that, in general, innovation leads to better performance.

It has been concluded from the research that yet, these days Albania represents a deficit in innovation, with a poor performance, which becomes a handicap for the competitiveness of its enterprises. It ranks 123 out of 142 in Global Competitiveness Report 2012-2013. This puts in risk the competitiveness (ranked 78th out of 142 countries) and sustainability of economic growth and employment.

We can say that Albania companies make innovation (process or product) by its own without any support of the state. Banking sector and telecommunication applies innovation. More than 50% applies process and product innovation. This was due to the effects of the globalization and the growth of information technology. It was the latter that had prompted the company to change their processes, because every company has the opportunity to be informed in real time about everything that happens around them. This gives them the ability to scale up and improve their processes.

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