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## **THE IMPORTANCE OF INNOVATION STRATEGY FOR SMES GROWTH- EVIDENCE FROM NORTH MACEDONIA**

Nowadays, SMEs are the key driver of economic growth. They play an important role in creating employment, adding value and exports. Considering this fact, it is necessary to implement appropriate strategies that will enable SMEs growth and development. In this paper, the subject of analysis will be the innovation strategy and its importance for SMEs growth. Innovation is essential to an organization's success. Innovation can lead to increased organizational performance and revenue as business leaders develop and implement more efficient and effective processes for reducing costs or facilitating the development of better products. SMEs are more innovative than larger firms, due to their flexibility and their ability to quickly and efficiently integrate inventions created by the firms' development activities. The main aim of the paper is to identify the key determinants of SMEs innovation and the innovation influence of SMEs performances. Hence a survey will be conducted on a representative sample of SMEs in North Macedonia. At the end of the paper based on the obtained results we will propose a measures in order to stimulate SMEs innovation.

**Keywords:** innovation strategy, innovation, SMEs, performances

### **INTRODUCTION**

Economic theory and empirical studies have shown that innovations are among the key drivers of the economic growth. They significantly contribute to productivity increasing and the products and services quality, making the firms more competitive. In fact, in the dynamic environment, the small and medium enterprises competitiveness depends on the rate at which new products can be presented in the market and on the occurred costs for saving and performed improvements.

The innovation is and will be driving force of dramatic changes. As written by Drucker (2009) entrepreneurs in general bring innovations. They represent specific instrument of entrepreneurship. Innovation represents activity that impregnates the existing resources with new capacities for creation of resources. Innovation sometimes may result in brand new, unknown product or replacement of some existing function for it's more efficient and successful performance. Drucker said that "successful entrepreneurs should always practice systematic innovation. Systemic innovation is organized research directed towards changes and systematic analysis of the opportunities such changes can offer and to lead to economic and social innovation. Specifically, systematic innovation means monitoring seven sources for innovative opportunity: the unexpected; the incongruity; innovation based on process need; changes in industry structure or market structure that catch everyone unawares; demographics (population changes); changes in perception, mood, and meaning; new knowledge, both scientific and non-scientific". (Drucker, 2009)

Small and medium-sized enterprises (SMEs) leaders often lack the budget to employ innovation strategies due to the costs associated with new changes. In a dynamic international business environment, innovation strategies offer opportunities to secure a competitive position in a given market (Prajogo, 2016) and businesses may experience an increase in profits. A strategic activity facilitates positive developments in goods and procedures. In turn, contact with consumers and suppliers successfully facilitates creative performance. Linking innovation to strategy is essential for the

effective management of innovation. Strategy defines capital, commodity, process, and device design so that companies can respond to their environment. (p.241-249).

Considering the importance of innovation and innovation strategy main aim of the paper is to identify the key determinants of SMEs innovation and the awareness of the managers for innovation importance for SMEs growth.

The rest of the paper is organized as follows. Section 2 deals with some previous work on this topic. Section 3 gives theoretical overview and introduce briefly the readers for innovation, types of innovation and innovation strategy. Section 4 provides insights into the data, methodology, and results of the analysis. The last section concludes conclusion and recommends.

## LITERATURE REVIEW

According to Almeida (2004) professor at Georgetown University "SMEs play a unique, active and crucial role in the innovation process, technological advances and improving the high-tech information networks. SMEs are more innovative than larger firms, due to their flexibility and their ability to quickly and efficiently integrate inventions created by the firms' development activities (Acs and Yeung 1999, Qian and Li 2003, Verhees and Meulenbergh 2004). Several studies have shown that there is a clear connection between innovation and the creation of an entrepreneurial economy (Schumpeter 1934). In their study, Mazzarol and Reboud (2008) considered innovation to be related to new products or services, new production processes, new marketing techniques, and new organizational or managerial structures. Innovation may also involve technology, intellectual property, business, or physical activity It is seldom that an organization engages in one type of innovation without affecting other innovation areas.

Innovation can be seen as a set of routines or procedures that an organisation carries out to create and collect aggregated value (Pisano, 2015).

The appropriate use of innovation strategies can create additional value for customers and shareholders and increase enterprise competitiveness (Baker, Grinstein, & Harmancioglu, 2015) (Rubera & Kirca, 2017). Innovation can also lead to increased organizational performance and revenue as business leaders develop and implement more efficient and effective processes for reducing costs or facilitating the development of better products (Chowhan, 2016) (Simester, 2016). The success of any given innovation may be temporary, and nurturing a culture of innovation in organizations is essential to sustaining a competitive advantage and achieving higher profit margins (Ferreira, Fernandes, Alves, & Raposo, 2015) (Villan, Da Silva, & Camilo, 2016). Business leaders should seek to foster a culture of innovation in organizations to increase business performance.

An innovation strategy should determine what types of innovation should be pursued. It should also align activities in relation to core innovation goals and the key competitive advantage that the company is trying to gain. A vital element in this strategy is the relationship between creating and capturing new value. (Ricardo)

## THEORETICAL OVERVIEW FOR INNOVATIONS AND INNOVATION STRATEGY

Innovations are the result of new combinations of innovation inputs in the form of resources, ideas, information, knowledge and/or technologies, which to a varying degree are generated in-house in firms using in-house capabilities and R&D. Due to an increasing competition, innovations are increasingly dependent upon a diverse set of specialized innovation inputs and capabilities. This implies that we shall expect that firms in general no longer can perform all parts of the innovation process in-house relying only on internal innovation capabilities and inputs (Iansiti 1997).

Schumpeter, which may be called the founder of the theory of innovation in the economy generally, regarded innovation as the economic impact of technological change, as the use of new combinations of existing productive forces to solve the problems of business. (Schumpeter, 1982).

The other definition for innovation has given by Pol Trot, professor of management at the University of Portsmouth, so the innovation are divided as: innovation of product; innovation of process; innovation of organization; management innovation, innovation of production; marketing innovation and service innovation. (Trott, 2008)

**Table 1:** Types of innovation

	New	Same one improved
New	Radical	technical adjustment
Same one improved	Pioneer	Adaptation

**Source:** (Fiti, Vasilevska, Bejtmen, 2007).

Considering the data from the table1 it can be conclude that the introduction of new product that is produces with new process of production represents radical innovation; If there is an offer of same product with new process of production we speak about technological adaptation; for pioneer innovation we speak when with help of the same technological process we get new product, whilst the most common kind of innovations are adaptations consisted by small changes of the products and processes for their production and marketing. (Fiti, Vasilevska, Bejtmen, 2007).

The innovation has to be confirmed on the market in order to be recognized as innovation, and the typical market aspects for the creation of innovation are:

- demand pull – when new products are created to meet the needs of the customers;
- supply pull – when the innovation does not arise as a result of the needs and demands of consumers; but as the business entity creates a need and demand for their products.

Innovations are the key feature and a prerequisite for the development of small and medium enterprises. But they do not occur automatically their drive is entrepreneurship - powerful compounds of vision, passion, energy, enthusiasm, insight, judgment and hard work.

Even the largest innovative firms cannot rely solely on internal innovation inputs for the innovation process, and thus need external innovation inputs in the form of ideas, information, knowledge and/or technologies to develop innovations (Chesbrough and Crowther, 2006). The appropriate use of innovation strategies can create additional value for customers and shareholders and increase enterprise competitiveness. (Baker, Grinstein, & Harmancioglu, 2015) (Rubera & Kirca, 2017).

Usually, the innovations are divided as: product innovation, process innovation, marketing innovation and organizational innovation. So a firm in a given point in time can choose to have any of these four types, any combination of these four types, or none of them at all.

- First, a *product innovation* is defined as the introduction of a good or a service that is new or significantly improved regarding its characteristics or intended uses, including significant improvements in technological specifications, components and materials, incorporated software, user friendliness or other functional characteristics. It can utilize new knowledge or technologies, or can be based on new uses or combinations of existing knowledge or technologies. Product innovation is the result of a difficult process driven by advancing technologies, changing customer demand, shortening product cycles and increasing national and international competition. It is normally assumed that successful product innovation demands a strong intra-firm interaction as well as between the firm and its customers and suppliers. Product innovation can be radical or incremental, but also it can be architectural, i.e. with little change in component, still has a great consequence for the industry and market (Henderson and Clark, 1990).
- Second, a *process innovation* is the implementation of a new or significantly improved production or delivery method. It includes significant changes in techniques, equipment and /or software. Nevertheless, we prefer to think that process innovations are exclusively associated with investments in new physical equipment embodying new knowledge, i.e. investments generating embodied technical change within the firm.
- Third, a *marketing innovation* is defined as the implementation of a new marketing method involving significant changes in product design or packaging, product placement or pricing strategy (marketing's four P). Its target is to better meet customers' needs, opening up new markets or to give the firm's products a new position in the market with intention to increase sales incomes.
- Fourth, *organizational innovation* is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations. Organizational innovation can be realized in the form of organization's strategy versus structure.

Therefore, a firm can have one of the sixteen possible innovation strategies at a given point in time. The strategies are: non-innovative; doing only product innovation in year; doing only process innovation in year; doing only marketing innovation in year; only organizational innovation in year; doing product and process innovations in year; doing product and marketing innovations in year; doing product and organizational innovations in year; doing process and marketing innovation in year; doing process and organizational innovations in year; doing marketing and organizational innovations in year; doing product, process and marketing innovations in year; doing product process and organizational innovations in year; doing product, marketing and organizational innovations in year; doing process, marketing and organizational innovations in year; doing product, process, marketing and organizational innovations in year. The most popular ones are: (1) only product, (2) only process, (3) only marketing, (4) only organizational, (5) both product and process, and finally (6) all four types of innovation. (Karlsson& Tavassoli, 2016)

According to Ventresca (2020), an organisation innovates for one of the following three reasons, or a combination of them:

- Competition: in the case of international organisations, for a long time the prevailing approach was that there was no competition. There was an assumption that each international organisation had clear boundaries within its sector. This created a very stable environment in which international organisations could develop their business models and serve members. It can be argued that this assumption no longer holds, creating a dynamic environment that is constantly changing and in which there are threats of new entrants to the customs arena.
- New business models: technology has recently become a strong source of innovation, especially by developing new business models. It is a particularly important part in most innovation processes; however, is not the only factor. Technology by itself does not create value; it must be considered together with other social interactions and external inputs.
- New ways of creating value: the appearance of new platforms is forcing many economic actors to rethink their processes to create value. A platform is defined as a common hub that creates a new system to coordinate the

way services are delivered, extracting some of this value for itself. Whatever the reason to innovate, the goal is to create value.

Today the world is facing with one of the biggest challenges – COVID 19 – pandemic. There is no doubt that there is no segment of the society that was not under the pressure of the global pandemic. The COVID-19 pandemic crisis cause a significantly changes in businesses operations, SMEs are facing with numerous challenges and problems as a consequence of the pandemic. The period of closure and movement prevention policies adopted by governments in many countries have greatly affected SMEs, paralyzing their operations, weakening their financial positions, and exposing them to financial risk. SMEs have suffered from a shortage of workers and production inputs because of distortions that marred supply chains, which negatively affected their sales and their ability to fulfill their financial obligations and pay employees' salaries. This problem has coincided with a decrease in consumer spending because of the reduction in consumers' income and widespread feelings of uncertainty. As a result, many SMEs found themselves incapable of dealing with the situation and some of them have stopped their activities and remained closed since the first months of the outbreak. Today, SMEs are forced to look for strategies in order to survive and to create existential prognoses of business operations during great economic and social uncertainty.

Through surveys and interviews, Bar Am et al. (2020) found that in many cases the natural response to the current crisis was to deprioritise innovation and concentrate more on shoring up core business, pursuing known opportunities, conserving cash and minimizing risk while waiting for times of more clarity and less uncertainty. They defined these measures as a limited response to a crisis, and highlighted other urgent actions such as:

1. adapting the core to meet shifting customer needs
2. identifying and quickly addressing new opportunities being created by the changing landscape
3. re-evaluating the innovation initiative portfolio and ensuring resources are allocated appropriately
4. building the foundation for post-crisis growth to remain competitive in the recovery period.

The question that needs to be asked is: why innovate? The answer is clear: the reason behind innovation is the creation of value.

The main role of an innovation strategy is that guides the decisions on how resources are to be used to meet a firm's objectives for innovation and, consequently provides value and builds competitive advantage. Gilbert (1994) highlighted that innovation strategy designates to what degree and in what way a firm uses innovation to perform its business strategy and to enrich its performance. Hence, a planned and well-communicated innovation strategy is necessary in order to achieve maximal effectiveness and efficiency (Ramanujam and Mensch 1985; Ernst 2002; van der Panne, van Beers, and Kleinknecht 2003; Oke 2007).

## RESEARCH METHODOLOGY

In order to give new prospect to this issue, a survey on small and medium businesses was carried out in March 2022. The survey comprised 60 SMEs from North Macedonia, and there were 45 questionnaires. The businesses that were part of the research are from the manufacturing industry and all respondents were managers responsible for day-to-day business processes – usually the entrepreneur, and otherwise a general manager. Questions were set using a 5-point Likert scale anchored by strongly disagree to strongly agree.

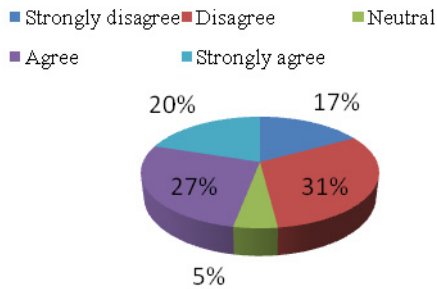
The questions were divided into 4 groups. The first set of questions concerns general company data. The second group is questions related to the possibilities of enterprises to introduce changes in production methods and processes. The third group of questions are related to anticipating competition and how ready they are to introduce innovations. The fourth set of questions is posed in a way that information can be obtained on how much technological change is forcing companies to introduce innovations and innovative strategies are the key influence factors for innovation.

### *Research results*

On the basis of data analysis from the first group of questions, the following results have been obtained: from the businesses-respondents, 31 were registered before 2010, and 14 were established after 2010, which means that the number of surveyed firms older than 10 years. Most of the respondents, i.e. 57% are small businesses, 5% micro and 38% medium businesses. The managers of the businesses that were part of the survey had more than 10 years of work experience.

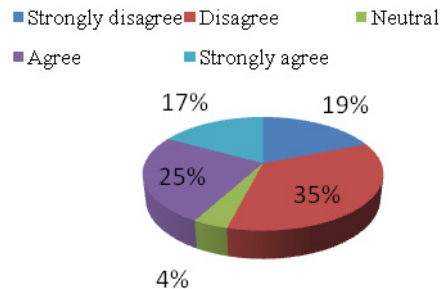
The second group of questions is related to the power of enterprises to introduce changes in production methods and processes.

**Your business has the ability to innovate quickly in line with technological change**



**Chart 1**

**Your business has the opportunity to quickly change the volume of production**



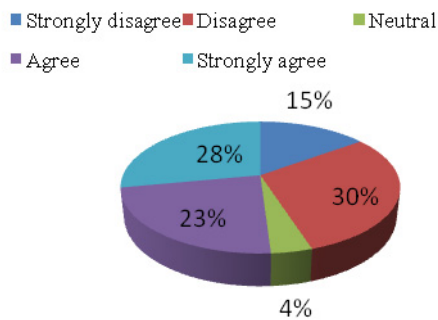
**Chart 2**

As can be seen from the graph 1 on the question “Your company has the ability to innovate quickly in line with technological change”, 17% of the respondents strongly disagree, 31% disagree, 5% neutral, 27% agree and 20% strongly agree. The data from the graph 2 shows the following results: on the question “Your business has the opportunity to quickly change the volume of production”, 19 % of the respondents strongly disagree, 35% disagree, 4 neutral, 25% agree and 17% strongly agree. The next question is “Your business has the ability to change the production methods quickly in accordance with changing in technology” and 19 % of the respondents strongly disagree, 39% disagree, 8% neutral, 24% agree and 10% strongly agree.

The third group of questions is related to the anticipating competition and how they are ready to introduce innovation. Here are the result:

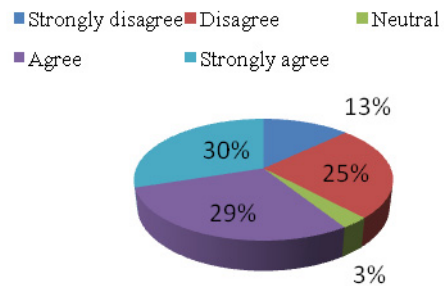
- On the question “Your business introduces new products before the competitors do” 15 % of the respondents strongly disagree, 30% disagree, 4% neutral, 23% agree and 28% strongly agree.
- On the question “Your company produces products with better technology than the competitors ” 13% of the respondents strongly disagree, 25% disagree, 3% neutral, 29% agree and 30% strongly agree.
- On the question “Your company has a wider range of products compared to your competitors ” 12% of the respondents strongly disagree, 26% disagree, 4% neutral, 38% agree and 20% strongly agree.

**Your business introduces new products before the competitors do**



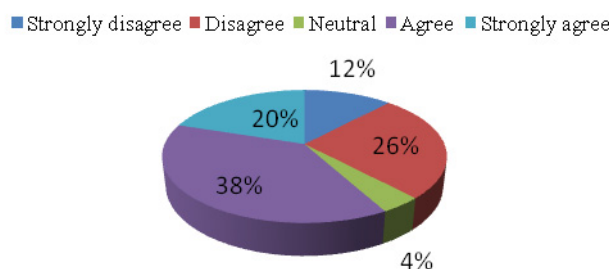
**Chart 3**

**Your company produces products with better technology than the competitors**



**Chart 4**

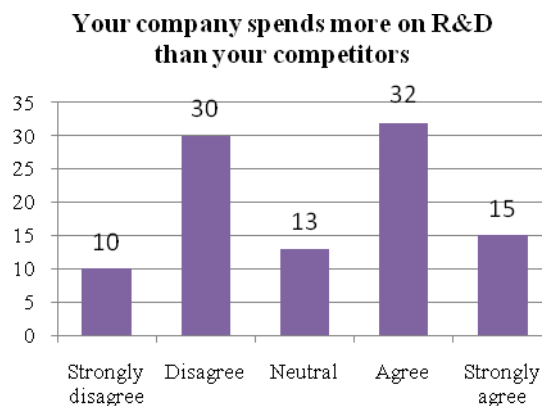
**Your company has a wider range of products compared to your competitors**



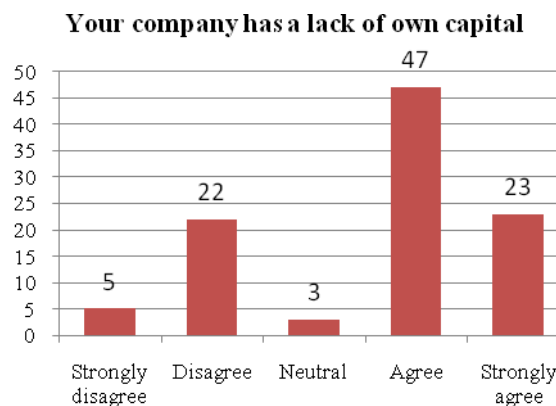
**Chart 5**

The fourth set of questions is posed in a way that information can be obtained on how much technological change is forcing companies to introduce innovations and innovative strategies and which are the key influence factors for innovation.

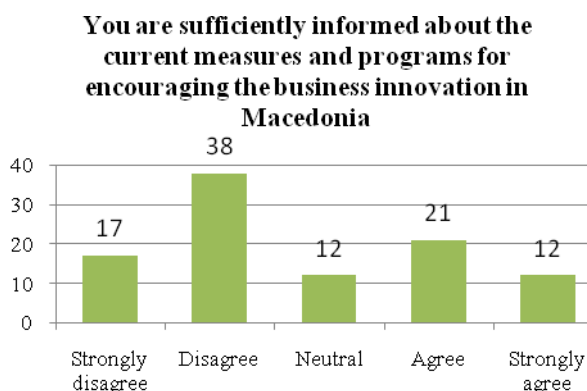
The results of the question “Technological changes are very fast in your business “ present that 7 % of the respondent strongly disagree, 17% disagree, 4% neutral, 52%agree, 20% agree. On the questions “Technological development in the sector make possible new product idea” 13% of the respondents strongly disagree, 21% disagree, 8% neutral, 14% agree and 14% strongly agree.



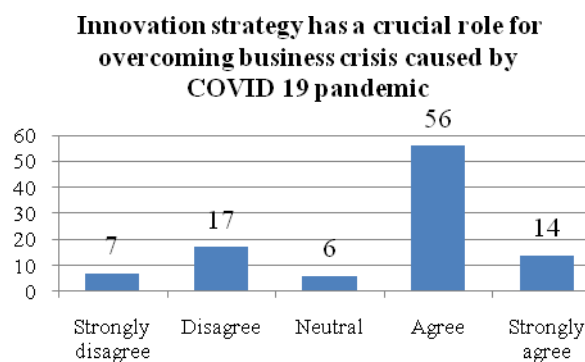
**Chart 6**



**Chart 7**



**Chart 8**



**Chart 9**

**Source:** Results from the own research

The results that emerged allow to formulate some initial considerations that many of the companies have financial problems, ie lack of own capital, hence the funds they allocate for research and development are very small. Also, a large number of the respondents, actually even 55%, are sufficiently informed about the measures and programs for encouraging innovation in businesses. To cope with the global economic crisis caused by the pandemic, SMEs have identified the challenges created and applied new strategies to protect their businesses. The data in Chart 6 underscore the importance of an innovative strategy for overcoming the consequences of the Covid pandemic 19.

## CONCLUSION

SMEs have an important role for economic development, but they are facing with numerous challenges and problems especially today as a consequence of the pandemic. The period of closure and movement prevention policies adopted by governments in many countries have greatly affected SMEs, paralyzing their operations, weakening their financial positions, and exposing them to financial risk. SMEs have suffered from a shortage of workers and production inputs because of distortions that marred supply chains, which negatively affected their sales and their ability to fulfill their financial obligations and pay employees' salaries. This problem has coincided with a decrease in consumer spending because of the reduction in consumers' income and widespread feelings of uncertainty. As a result, many SMEs found themselves incapable of dealing with the situation and some of them have stopped their activities and remained closed since the first months of the outbreak. Today, SMEs are forced to look for strategies in order to survive and to create existential prognoses of business operations during great economic and social uncertainty.



The appropriate use of innovation strategies can create additional value for customers and shareholders and increase enterprise competitiveness.

Based on the findings and performed research, we can highlight some measures in order to stimulate SMEs innovation:

- Adapting public policy tools to the needs of SMEs and facilitating the participation of SMEs in public procurement procedures and better utilization of programs for support of small and medium enterprises.
- Facilitate access to finance for small and medium-sized enterprises and reduce interest rates on loans as they are the dominant source of borrowed capital. Also utilizing the use of alternative sources of financing such as venture capital and business angels
- Improving the infrastructure and institutional support services that are needed to promote innovation through the development of soft skills and capacity building activities for SMEs and innovative enterprises in establishment as well as support through networking, merging academic community, the private sector and other stakeholders
- Informational and educational campaign for getting to know and greater use of available funds to support innovation, measures and programs for encouraging innovation in Macedonia.

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