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# INNOVATIVENESS AS SMES SUCCESS FACTOR FOR GROWTH IN REPUBLIC OF MACEDONIA

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**Abstract:** *There is a strong consensus between SMEs, scientist, policymakers and donors related to the importance of high-growth companies in each country. This research was prepared in process of analyzing the indicators for economic growth and recognizing different success factors for company successes. In this paper, the focus is done to the analysis of innovativeness as factor of success and SMEs growth. There is shown the part of research developed for the needs of World Bank office in Skopje as a background study with aim to provide relevant information in the process of development of a new Country Partnership Strategy.*

**Key Words:** *Innovativeness, Economic growth, Success indicators*

## 1. INTRODUCTION

### 1.1. Innovativeness as one of the most important factors for company's growth

Even in theory and practice, it is evident that group of factors related to the innovativeness is one of the most unmeasurable and intangible, still they are important for bringing company's success [13,14,15]. Today, the discussion of innovativeness, means not only to innovate new products and services, it is much more of that. Having innovative products or services can't ensure the success for the companies, if they can't be produced on a more efficient way, be delivered on the right way and available 24/7 for the customers. According to Bruce and Birchall [1], over the last 15 years, three major trends have emerged:

- maintaining *competitiveness* has become a relentless drive toward improved efficiency and effectiveness,
- companies face increasing *expectations* from their customers and
- consumers and *globalization* no matter how big or small companies are, they are now competing on a global market.

So, they conclude that if companies can't compete on the basis of price they will need to differentiate and to differentiate, they will need to innovate.

Not so long in the past, the main focus of innovation was to commercialize ideas about new products or services, to improve existing products and services and develop and improve specific processes used by companies to produce and deliver that products and services. Today, business model becomes also one important element that will need to

be improved or innovated if companies want to support innovation in other two elements.

According Davila, Epstein and Shelton [2], innovation occurs when companies change any of the major pieces of the technologies and the business model of the products and services they are delivering to their customers. So, they propose two levers of innovation: technology lever (products/services, process technologies and supporting technologies) and business model lever (value proposition, value network, target customers). Because, business model is more complex, and process technologies and supporting technologies can be seen as processes in a company [18,19,21], it is evident that the focus of innovation will be on three elements:

- products and/or services,
- business model and
- processes.

Nelson and Winter [3] relate innovation as a important source of entrepreneurial economic growth especially because it is fostered by the new products, technologies, processes, markets, methods, supply sources, and types of organizational arrangements. According to Pouder and St John [4], the performance of innovations can be measured according to the resources that company have allocated to research and development or the outputs as the number of patents issued.

### 1.2. Importance of high-growth companies

There is a strong consensus between SMEs, scientist, policymakers and donors related to the importance of high-growth companies in each country [16,17,20]. The scientists use different names for these companies such as “high-growth companies”, “high-impact companies” and “gazelles” which have a potential to grow really quickly, around 20% and more on annual basis. Because of that, it is evident that many country's governments and donor communities their main focus placed on the support of more entrepreneurial ventures that will be part of this category of companies in order to support jobs and economic growth. Private sector development is crucial for growth, development and employment creation. There is a strong need to change the focus on developing micro, small and medium companies that have potential to drive growth.

## 1.2. Analysis of high-growth companies in the Republic of Macedonia

Even the business environment in the Republic of Macedonia is substantially improved over the past few years, especially in the areas as tax administration, business registration, simplifying regulations and customs procedures that were awarded again with a high rank in the latest World Bank Doing Business 2014 [5] (25th out of 189 economies) there is still very high unemployment rate. Republic Macedonia is a country with unemployment rate that is around 28% - 30% especially among youth, the rural population, ethnic minorities and less educated people. Because of that, one of the main challenges for the Republic of Macedonia is to create employment. These challenges can be addressed only with the new jobs creation through increased entrepreneurial activities.

This paper shows the part of research developed for the needs of World Bank office in Skopje as a background study with aim to provide relevant information in the process of development of a new Country Partnership Strategy for Macedonia for the period 2014-2017. The Strategy is built around two focus areas: "growth and competitiveness" and "jobs and inclusion" with a cross cutting area of EU integration as a common goal. There were analyzed the indicators for economic growth in order to recognize different success factors for company successes. The research team looked for a sample of successful companies which have demonstrated growth in revenues, jobs, exports, innovation and assess the factors that have contributed to their success on the domestic and international markets.

## 2. DESK RESEARCH OF SUCCESS FACTORS FOR SMES GROWTH

Fortune magazine has developed many types of lists about successful companies based on different criteria. Related to companies and their success, Fortune magazine [6] prepare the different lists as: Global 2000 Leading Companies, America's Most Trustworthy Companies, America's Best Small Companies, World's Most Innovative Companies etc. Everything starts with the Global 2000 list of companies for which the Fortune Magazine uses data from FactSet Research systems to screen for the biggest companies in four metric: sales, profits, assets and market value.

Hay Group [7] is partnering with Fortune magazine to conduct the World's Most Admired Companies survey and to uncover business practices that make these companies both highly regarded and successful. This list is rated on nine attributes where overall corporate reputation score is an average of the attribute scores: ability to attract and retain talented people, quality of management, social responsibility to the community and the environment, innovativeness, quality of products or services, wise use of corporate assets, financial soundness, long-term investment value, and effectiveness in doing business globally.

Another magazine, Business Week has created a list of the 100 world's most innovative companies. This list is based on a Boston Consulting Group survey of executives who voted on companies regarding innovativeness. But, Clayton M. Christiansen from the Harvard Business School, Jeff Dyer from the Brigham Young University and Hal Gregersen from INSEAD, thinks that this list is not something that is valuable

in terms of innovativeness. They conclude that „based on the methodology, the list is largely a popularity contest based on past performance [8].” Because of that they have developed their own list of innovative companies based on expectations of future innovation, instead of subjective thoughts of the surveyed executives. They are using a specific factor developed for this purpose called „innovation premium”. In such a way, their list brings totally different companies at the top, companies that are not covered with the same list of most innovative companies from Business Week.

So, different way of looking to success and what the success means will give different results for the rankings of the companies based on the specific success criteria. Because of that we have decided to build our own research methodology that is used for the purpose of this research.

## 3. RESEARCH METHODOLOGY

In order to recognise different success factors, and successful companies, unique research methodology was developed [10], where the basic criteria for the selection of initial dataset were:

- Companies that are at least 3 years active,
- Companies that are predominantly owned (>51%) by individuals or legal bodies from the Republic of Macedonia or companies that have now foreign investments because of theirs' success in the past, and
- Companies that are private owned.

Figure 1 presents the methodology that was used in conducting the research for high-growth companies in the Republic of Macedonia in order to determine reasons for their success.

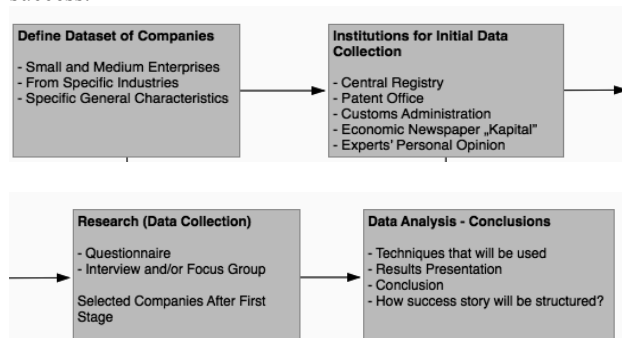


Figure 1. In-house developed methodology

### 3.1 Criteria for company selection

In this research, main criteria for company selection was based on the data set from the Central Registry of the Republic of Macedonia for all companies registered in the country for the period 2011, 2012 and 2013 and have achieved:

- Revenue growth in last three years,
- Increase in the number of employees in last three years,
- Profit growth in last three years,
- Growth of annual investment in new equipment and processes in last three years.

### 3.2 Data collection

In order to cover all relevant companies for the purpose of this research, the methodology required data from the Central Registry of the Republic of Macedonia for all companies registered in the country for the period 2011, 2012 and 2013 and have achieved the criteria for company selection (point.3.1).

In order to cover the innovative companies with registered patents, trademarks, or intellectual property, the methodology asked data from the State Office of Industrial Property [12] and their public available database.

### 3.3 Data collection from companies

The third stage of the research methodology covered data collection from the companies based on the earlier prepared questionnaire related to all identified success factors from the desk research. Generally, the questionnaire used seven groups of questions as a result from the initial desk research that covered required success determinants related to different aspects of the work of the companies to learn why the most successful companies are successful.

On the Figure 2, there are shown all success factors that are used for the research as a starting point in identification of additional possible factors from the field research.

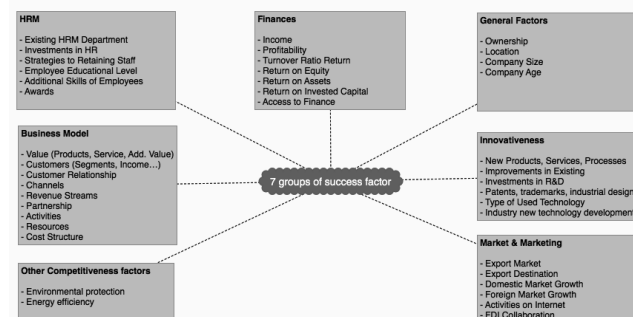


Figure 2. Final success factors from the desk research

### 3.4 Data analysis

The last stage of the proposed model was related to final analysis of the collected data from all sources and preparation of conclusions related to success factors, success stories, and presentation of research findings.

## 4. SELECTED COMPANIES FOR THE RESEARCH

From the Central registry of the Republic of Macedonia we received database of all companies that have minimum one of the selection criteria to be included in research dataset. Based on the research methodology and already designed dataset for the analysis, we have selected 47 companies where we sent questionnaires.

In order to collect data for possible high-growth companies in the Republic of Macedonia, the research team has used publicly available data from magazine “Kapital” as Top 100 Biggest Gazelles in Macedonia and Top 200 Biggest Companies in Macedonia. The selection of these companies was based on the growth in income, profitability and number of employees.

Because, our initial analysis have shown that there are other successful companies that are not part of previous three systems of selection, because they have different profit centers based on specific activities, we decide to include several other companies that now became part of the research pool based on the criteria - asking experts from the field to propose companies that they think are successful in the Republic of Macedonia.

### 4.1 Scope of surveyed companies

Questionnaire was sent to total of 305 companies as an on-line survey [10]. On-line survey was opened for answers from 03 June 2014 to 04 July 2014.

At the end, we received completely answered questionnaire from 40 companies. Direct face-to face interview were conducted with 6 companies. Most of the responses of the questionnaire come from entrepreneurs from manufacturing sector, wholesale and retail sector and construction sector that represent 74% of the all respondents (Figure 1). 65% of the SMEs that have responded to the questionnaire are small companies and 35% are medium companies (Figure 2).

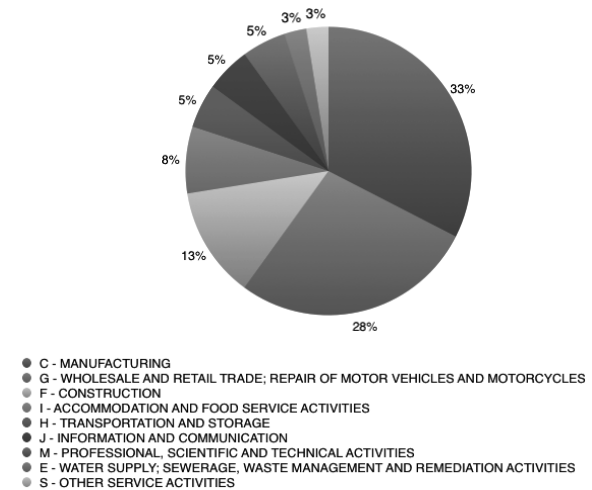


Figure 1: Responses according sectors in which SMEs operates

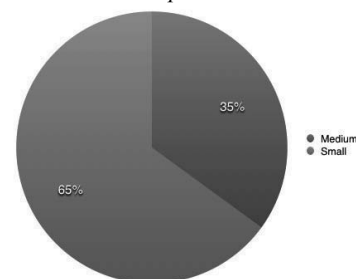


Figure 2: Responder's Size

## 5. MOST IMPORTANT SMES SUCCESS DETERMINANTS

In order to accomplish the research and to locate determinants for the success of SMEs in the Republic of Macedonia, the expert team conducted extensive literature review. The main output from this analysis was six groups of success factors that were identified as the most important for small and medium sized companies to ensure growth and success. All of them (as a set of questions related to specific topic) are included in the questionnaire that was sent to the selected companies according the research methodology. These six groups of determinants are: (1) general company’s determinants, (2) financial determinants, (3) innovativeness, (4) market and marketing, (5) business model and (6) human resource management.

The focus of this paper is to show the innovativeness, as one of the most important SMEs success determinant.

### 5.1 Innovativeness

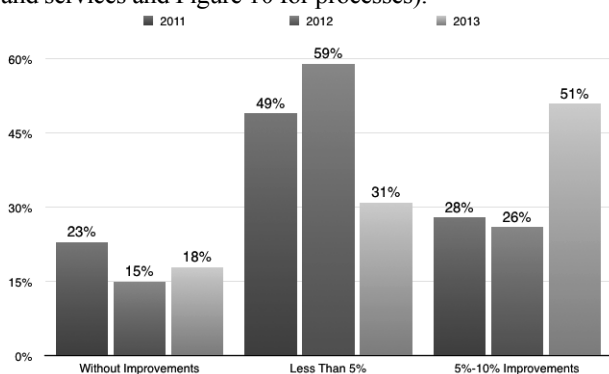
Innovativeness, or capabilities to innovate become one of the crucial determinants for the success of today companies.

In this research, there have been identified many variables related to innovativeness as type of technology

that is used from the company, development of new technology in the industry in which companies exist, development of new innovative products and/or services and processes, the speed of innovation, improvements of existing products and/or services and processes, investments in research and development and registration of patents, trademarks, and industrial design.

### 5.1.1 Innovations on products/services and processes

One type of innovation can be improvements of current products and services. Our research showed that most of the successful SMEs in the country make 1% to 5% improvements in their products and services yearly, but it is evident that there is a trend to increase this number because in 2013 51% of the respondents have made 5% to 10% improvements in their products and services (Figure 8). On the other side, most of these companies have 1 – 3 innovations when it comes to the products/services and processes, but there is a trend of continuous growth of the number of innovations year after year when it comes to more than four annual innovations (Figure 9 for products and services and Figure 10 for processes).



### 5.1.2 R&D and innovativeness

When it comes to innovativeness, research and development (R&D) is important part for the successful innovation. According the research, most of the successful SMEs in the country invest 1-5% of their annual income in the R&D activities. As shown in Figure 5, the number of companies that invest 1%-5% of their annual income in R&D is declining in the last two years, but rising when it comes to 6% to 20% of annual income invested in R&D.

Figure 5: Percentage of annual income invested in R&D

### 5.1.3 Number and types of innovations

According to the results from survey, the numbers of successful innovation in the products or in the services are shown on the Figure 12, for last three years.

According to interviews, the ways how companies come to innovations are different: the grate number of that by in house innovation processes, often by including the customers and never by the open innovation.

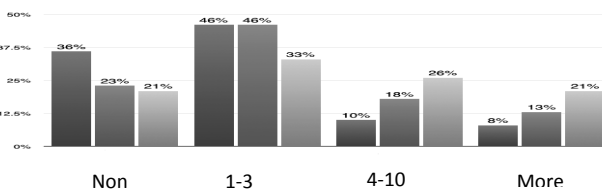


Figure 12: Number of innovations

## 6. CONCLUSINS

Analysis of the success factors is only one side of the complete picture for ensuring growth in gaining new knowledge in competitiveness and growth of small and medium size enterprises. Operating in highly uncertainty and dynamic environment, SMEs are exposed on many internal and external forces that will influence on their success. Different companies, industries, markets have different forces. On the other side, because high-growth SMEs and entrepreneurs generate new jobs, the researches focused their attention on why companies grow and what type of activities they need to support their growth.

There is located need to determinate factors for improving innovation activities. Fostering innovation culture and infrastructure is engaging all departments and all processes, empowering the company's development and growth. Although the innovations are hot topic in the last decade, and have been identified as crucial competitiveness driver, still there are many uncertainties regarding the factors that influence the innovativeness of the Macedonian private sector. Detailed analysis on the topic would provide the stakeholders (business support organizations, policy makers, foreign donors, etc.) with sufficient insight for developing of effective measures for improvement.

Figure 8: Improvement of products/services

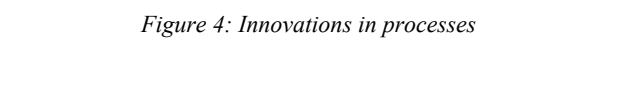


Figure 3: Innovations in products/services

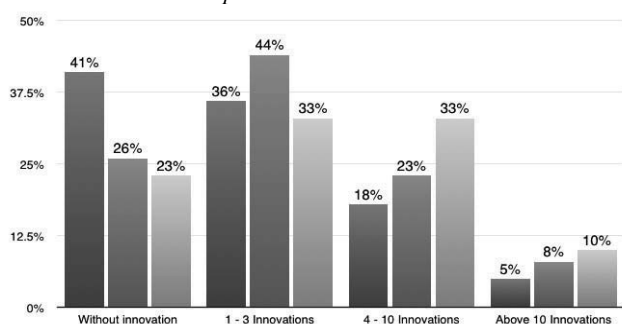


Figure 4: Innovations in processes



Influence of innovativeness to the companies' export and internationalization is very important factor. One of the main suspects for increasing of export ability is the innovativeness of the company. A specialized research confirming this link, presenting the key innovation types would be good bases for adjusting legislative and development of future tools for boosting the right innovation instruments.

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