UNDERSTANDING THE CURRENT STATUS OF INNOVATION MANAGEMENT PRACTICES IN KOSOVO FIRMS

Betim RETKOCERI

Faculty of Economics, University of Prishtina "Hasan Prishtina", Prishtina, Kosovo
betimretkoceri@gmail.com

Rinor KURTESHI

Faculty of Economics, University of Prishtina "Hasan Prishtina", Prishtina, Kosovo
rkurtesh@hawk.iit.edu, rinor.kurteshi@yahoo.com

Abstract
This study is focused on identifying the current status of innovation management practices in Kosovo firms. The significance of this study relies upon the weight that innovation has in economic growth and job creation in developed and less developed countries. In this study a mixed methodology is utilized in order to provide a more comprehensive view on the topic under research. Findings derived from data analysis are compared and contrasted with the current state of knowledge. Findings indicate that managers associate innovation with ideas and consider innovation as a permanent and systematic process and management with implementation or generation of new services and products. Additionally, managers consider resources as an integrative part in partaking in the innovation management process, which is highly supported by the literature. Findings also show that Kosovo firms are moderately innovative in terms of frequency of innovations and the most common type of innovation is process innovation, followed by new services and product innovation. One neglected form of innovation found is business model innovation. Many authors consider business model innovation as essential in cultivating a culture of innovation. Regarding the organizational structure, hierarchical structures are impacting innovation positively in Kosovo firms although the literature doesn't support this finding. The majority of Kosovo firms have developed incremental innovations and only a quarter have engaged in radical innovations. The contribution of this research is in providing a base on innovation management practices in Kosovo firms. Conclusively, this is a unique contribution for Kosovar academics and practitioners.
Keywords: Innovation, management, firms, innovation management, Kosovo.

1. INTRODUCTION

Increasing competition, shifting customer preferences and global challenges are increasing the need for companies to innovate (Navickas and Kontautiene, 2013). The significance of innovation is increasing and is becoming one of the characteristics that organizations have to have in order to remain competitive in the market (Goyal and Pitt, 2007). In addition to that, innovation has a prominent role in fostering economic growth and job creation (Evangelista and Vezzani, 2012). According to Muller et al. (2005) innovators are leaders in every industry. Thus, studying innovation is of paramount importance in developed and less developed countries. As for studies completed in the area of innovation management practices, the literature is still limited (Pires et al., 2008; Oke, 2007).

Innovation is becoming a hot topic among developed countries and of high importance among less developed countries (Bartelsman et al., 2005). In Kosovo, we do know very little on how firms are doing in terms of managing innovation. Therefore, it is an indispensable need to address this issue of innovation specifically in developing countries with high level of unemployment, like the case of Kosovo where 45% of the population is unemployed (esk- ks.org) and where the burden of fostering economic growth and job creation relies upon private firms (Krasniqi, 2007).

The significance of the problem is evident and in this study a sense of ability of Kosovan firms to cope with global challenges, to create and manage innovation and retain their competitive edge in the Balkan region first and in the global scale in general will be studied. Moreover, since Kosovo is formally a very new state in the world and is passing through enormous transformations and going through a turbulent environment, it is valuable to conduct this research to understand the state of innovation among firms in Kosovo.

Finally, this study could be interesting and valuable to Kosovo practitioners as well as foreign investors interested in investing in a developing country. Thus, the importance and originality of this research is that there isn't any study undertaken in order to reveal the innovation management practices in Kosovo firms.

The research objectives to achieve understanding and analyzing the query, are:

- O1. Evaluate the current status of innovation management practices in Kosovo firms.

- O2. Compare and contrast the current status of innovation management practices in Kosovo firms with the existing literature.

2. LITERATURE REVIEW

2.1. Definition of Innovation

Innovation is crucial in creating and maintaining a competitive advantage (Morris, 2013). Companies that support innovation can maintain a better competitive advantage and positioning in the market (Peng at al., 2008; Branzei and Vertinsky, 2006) and according to Charterina and Landeta (2013) innovation is the only way to overcome hyper competition. Innovation is becoming of prime importance in developed countries economies and especially in transition country economies due to the impact that innovation has in fostering job creation and economic growth (Kuester et al., 2013).

Since the first definition of the term "innovation" from Joseph Schumpeter in 1934 there were generated a considerable amount of "innovation" definitions (Ettlie and Rosenthal, 2011). Recently, Baregheh et al. (2009) were able to collect almost sixty definitions of innovation from the existing literature and came with one of the newest definitions of innovation, which textually says: "Innovation is the multi- stage process whereby

organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their marketplace" (p. 1334).

Nowadays innovation is no more defined within the context of high-end technology or new products, but it overlaps and includes a broader aspect of business activities (Navickas and Kontautienė, 2013). According to Gogodze (2013) innovation is a system that creates and utilizes new knowledge and strengthens the competitive position of a firm.

2.2. Types of innovation

Apart from the two major types of innovation known as radical and incremental innovation, in literature there can be found more types of definitions. According to the Ariss and Deilami (2012) the dichotomy of innovations into radical and incremental only, or classifying innovation into sustaining and disruptive (Christensen et al. 2005) are narrowed concepts and do not fit with the reality of innovation nowadays. Instead of that, Henderson and Clark (1990) propose a new innovation framework matrix discarding innovation types but rather being referred as "degrees of innovation".

	Architectural Knowledge	
Component Knowledge	*Enhanced*	*Destroyed*
Enhanced	Incremental Innovation	Architectural Innovation
Destroyed	Modular Innovation	Radical Innovation

FIGURE 1 - DEGREES OF INNOVATION
Source: Ariss and Deilami (2012)

Based on the literature, the most common and cited type of innovation is product innovation which represents the ability of a company to produce new products or modify existing ones with the goal of creating differentiation (Lambertini and Mantovani, 2009). The second type of innovation is process innovation. According to Lambertini and Mantovani (2009) process innovation presents the investment of a company in marginal cost reduction. Lastly, the third most stated type of innovation is service innovation. According to Toivonen and Tuominen (2009) service innovation represents the renewal of existing services with added value to customers, and notably it can be easily replicated.

The question that arises is why some companies succeed or have different results from others although they have been engaged in the same innovation process. The answer, according to Chesbrough (2010) should be searched in their business models. Business model is defined as a system that enables the articulation of value proposition, through defining the interrelations between structure, strategy and economics of the firm to remain differentiated and competitive in the market (Chesbrough and Rosenbloom, 2002; Morris et al., 2005). Chesbrough (2010) argues that at the moment that companies encounter no progress on their business models, they should start to experiment with anything new in terms of business model innovation.

Chesbourgh (2010) concludes that business model innovation is not an easy task as it is perceived and requires transformation in organizational processes thus creating barriers that management should overcome. Every type of innovation requires "innovation management capabilities" (Francis and Bessant, 2005) and a very important distinction has to be made because each type of innovation has to be managed differently (Morris, 2013).

2.3. Innovation Management

Innovation brings differentiation to a firm and it has to be directed and managed through innovation management (Vilà and MacGregor, 2010). According to Birkinshaw et al. (2008), management practices in general present the way managers perform daily tasks, set objectives and meet requirements. It also represents the routines and procedures of the day-to-day job. Therefore, process management refers to the routines that managers apply in their daily work, starting from idea generation to turning those ideas into business activities. Process management also involves project management and performance evaluation (Birkinshaw et al, 2008). Most of managers lack the skills and knowledge in measuring the effectiveness of innovations and make informed decisions. This is a problem that can be harmful in the long run since it presents a permanent risk to innovation. Hence, managers need to be equipped with the skills and knowledge in measuring and managing innovation in their firms (Muller et al., 2005).

According to Sawhney et al. (2006), in order to succeed, innovation must be systemic, especially considering the integration of all phases of innovation, from idea creation to the point it reaches the end costumer. Vilà and MacGregor (2010) recommend that successful innovation can occur only if it is systematic, continuous and broad. Muller et al. (2005) suggests that innovation should be continuous and sustainable. The key point of every successful innovation management can be found in the company's employees and customers (Morris, 2013).

Managing innovation requires something more, and in this context many factors should be taken into account. One of the factors which directly impacts management of innovation is the situation in which the company itself is found and its environment (Bessant et al., 2005). Managing innovation is complicated and requires changing routines and creating and adapting new ones.

3. METHODOLOGY

In this study, a mixed methodology will be utilized. The combination of both methodologies provides a more comprehensive view of the phenomenon under research (DeLuca et al., 2008). Using mixed methods or multiparadigmatic methods (Mangan et al., 2004) can utilize the strengths of both methodologies and can give to the researcher more freedom for choosing the approach that best extracts what they are looking for and according to (Johnson et al., 2007) mixing methods can provide "the most informative, complete, balanced, and useful research results" (p. 129).

In order to better understand the current status of innovation among Kosovo firms, most representative firms are included into the sample. The quantitative instrument utilized is developed by Ozgen and Olcer (2007) in their research on innovation management practices in Turkish firms and in this study it was distributed to 102 participants, whereas the qualitative instrument is derived from the original questionnaire and 4 interviews are carried in line with the objectives set.

TABLE 1 - PARTICIPATION OF BUSINESSES ACCORDING TO ACTIVITIES

Activities	Distribution
Mining	1%
Industry	11%
Productions, distribution of electricity, gas and water	0%
Construction	6%
Wholesale and retail trade, repair of vehicles and household equipment	48%
Hotel and restaurants	8%
Transport, post and telecommunication	8%
Businesses services	10%
Other services	8%
TOTAL	100%

Source: Esk.rks-gov.net

The targeted personnel include managers who are directly involved in the process of innovation. Due to the limited information and public data availability, random sampling for quantitative analysis was unlikely, therefore the sample is based on convenient factors (contact details) judgment factors (size and sector) and snowball sampling strategy (networks) to find participants. The data gathered were analyzed through SPSS software for quantitative data analysis and through ATLAS.ti software for the qualitative data analysis.

4. RESEARCH FINDINGS

4.1. Organizational characteristics

The vast majority of companies analyzed have hierarchical structures (93%) while the most frequent type of organization is matrix organization (48.8%). Based on the sample, more than half of companies included have three managerial levels.

Generaly, one third of managers have admitted that their companies have R&D departments while the majority of companies don't. Interestingly enough, from the cross-tabulation of the frequency of innovation and R&D department, there can be noticed that the number of innovations is higher when companies don't have a separate R&D department, however this isn't statistically significant based on the Chi-Square Test.

TABLE 2 – CHI-SQUARE TESTS

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	30.237a	3	.000
Likelihood Ratio	17.880	3	.000
Linear-by-Linear Association	11.159	1	.001
N of Valid Cases	86		
a. 4 cells (50.0%) have expected count less than 5. The minimum expected			

Source: Author's calculations

Nevertheless, it is more interesting that non-hierarchical firms have shown lower frequency of innovations in compare to organizations with hierarchical structure and this is statistically significant for both sectors.
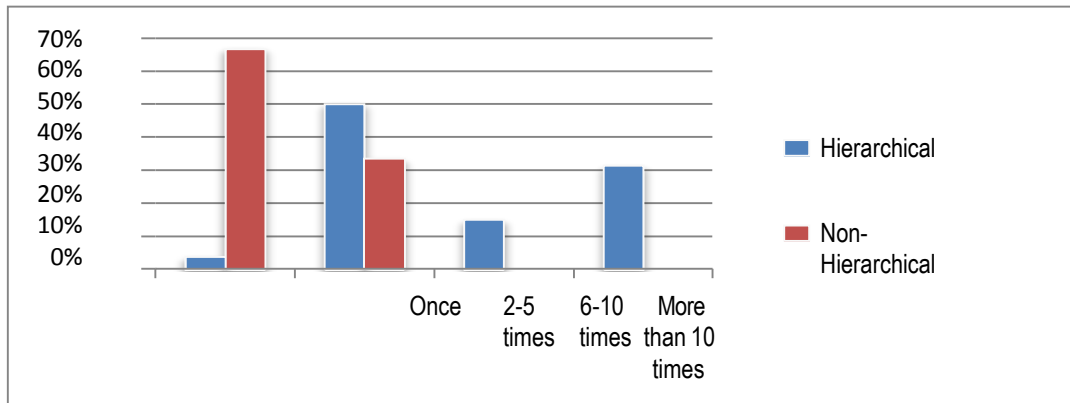

FIGURE 2 - RELATION BETWEEN HIERARCHY AND FREQUENCY OF INNOVATIONS
Source: Author's calculations

TABLE 3 – RELATIONSHIP BETWEEN FREQUENCT OF INNOVATION AND HIERARCHICAL STRUCTURE

S2. In its lifetime, how often did your company innovate? * it can relate					
			D6.Is your organization structure hierarchical?		Total
			Yes	No	
S2. In its lifetime, how often did your company innovate?	Once	Count	3	4	7
		% within S2.	42.9%	57.1%	100.0%
	2-5 times	Count	40	2	42
		% within S2.	95.2%	4.8%	100.0%
	6-10 times	Count	12	0	12
		% within S2.	100.0%	0.0%	100.0%
	More than 10 times	Count	25	0	25
		% within S2.	100.0%	0.0%	100.0%
Total		Count	80	6	86
		% within S2.	93.0%	7.0%	100.0%

Source: Author's calculations

Finally, testing the differences between the types of organization, there can be noticed that matrix organization has indicated difference in terms of the frequency of innovation but this is not statistically significant and therefore it is just an indication that matrix organization can be a good choice for innovations.

4.2. Innovation management practices in Kosovo firms

This section will explore findings related to objective one and two of this research regarding innovation perception form managers and innovation management practices found in Kosovo.

4.2.1. General view on innovation

Taking into consideration the qualitative data analysis, findings reveal that managers tend to associate innovation management mainly with "Idea Generation" and "Idea Implementation". Basically the main finding is that innovation as a single concept is understood as "an idea" itself while "generation" and "implementation" as a process of management.

Answering the question regarding innovation management understanding, interviewee P1 states that "materialization of the idea into practice, can be considered as innovation management" while he defines innovation management as a "process". Nevertheless, interviewee P4 offers almost the same definition as interviewee P1 stating that: "innovation management is implementing new ideas or inventions in the easiest and most adequate way".Analyzing quantitative data regarding innovation understanding and key factors that organizations should have in order to be able to engage in innovation, findings suggest that the majority of managers agree that organizations must have enough resources to innovate (77.0%). Moreover, they also think that innovation should be a defined job for employees in order to have success (75.6%). A significant number of managers also agree that customer feedback (75.2%) is one of the most important factors in innovation management.
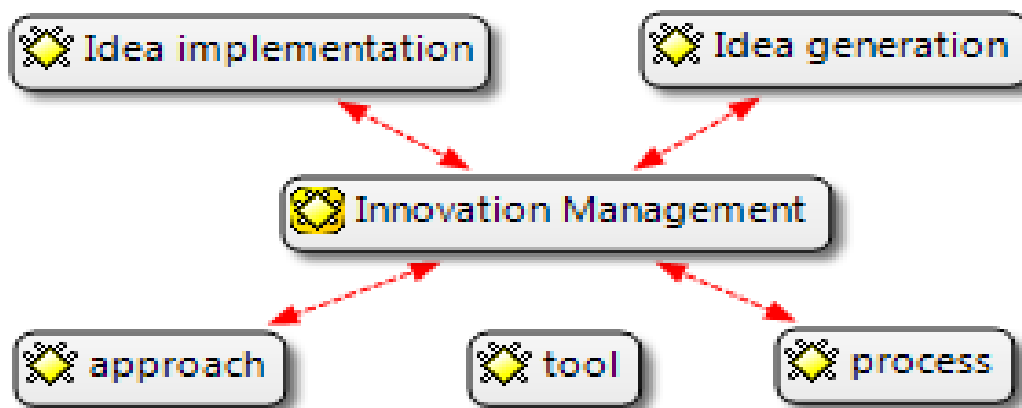

FIGURE 3 - INNOVATION MANAGEMENT UNDERSTANDING (QUALITATIVE ANALYSIS)
Source: Author's calculations

TABLE 4 - INNOVATION MANAGEMENT PERCEPTIONS

What is innovation management in your opinion?	Mean
In order to innovate, one has to have necessary resources	3.85
Innovation should be a clearly defined job for employees	3.78
Innovation is a result of customer response \ feedback	3.76
Innovation is a permanent and a systematic process	3.63
Innovation relates mainly to technological progress	3.55
Innovation is usually only developed within a single organization	3.31
Innovation is important only for large scale projects	2.22
Innovation is activity in a laboratory	2.10
Innovation is activity only for large firms	1.97
Valid N (listwise)	86

Source: Author's calculations

TABLE 5 - CORRELATIONS

		Innovation activity in a laboratory	Innovation is activity only for large firms	In order to innovate, one has to have necessary resources	Innovation is a result of customer response \ feedback	Innovation relates mainly to technological progress	Innovation is important only for large scale projects	Innovation should be a clearly defined job for employees	Innovation is usually only developed within a single organization	Innovation is a permanent and a systematic process
Innovation is activity in a laboratory	Pearson Correlation	1	0.125	0.183	0.035	0.212	.286**	0.059	0.081	0.102
	Sig. (2-tailed)		0.251	0.092	0.749	0.05	0.008	0.593	0.46	0.348
	N	86	86	86	86	86	86	86	86	86
Innovation is activity only for large firms	Pearson Correlation	0.125	1	0.18	0.056	0.147	.503**	.300**	.218*	-0.033
	Sig. (2-tailed)	0.251		0.097	0.608	0.177	0	0.005	0.044	0.762
	N	86	86	86	86	86	86	86	86	86
In order to innovate, one has to have necessary resources	Pearson Correlation	0.183	0.18	1	.333**	.216*	-.255*	.241*	-0.034	-0.099
	Sig. (2-tailed)	0.092	0.097		0.002	0.046	0.018	0.026	0.759	0.366
	N	86	86	86	86	86	86	86	86	86
Innovation is a result of customer response \ feedback	Pearson Correlation	0.035	0.056	.333**	1	.258*	-0.069	.302**	0.194	0.098
	Sig. (2-tailed)	0.749	0.608	0.002		0.016	0.525	0.005	0.074	0.37
	N	86	86	86	86	86	86	86	86	86
Innovation relates mainly to technological progress	Pearson Correlation	0.212	0.147	.216*	.258*	1	0.184	0.119	.253*	-0.015
	Sig. (2-tailed)	0.05	0.177	0.046	0.016		0.091	0.276	0.019	0.893
	N	86	86	86	86	86	86	86	86	86
Innovation is important only for large scale projects	Pearson Correlation	.286**	.503**	-.255*	-0.069	0.184	1	0.189	.213*	0.132
	Sig. (2-tailed)	0.008	0	0.018	0.525	0.091		0.081	0.049	0.227
	N	86	86	86	86	86	86	86	86	86
Innovation should be a clearly defined job for employees	Pearson Correlation	0.059	.300**	.241*	.302**	0.119	0.189	1	0.148	0.02
	Sig. (2-tailed)	0.593	0.005	0.026	0.005	0.276	0.081		0.175	0.856
	N	86	86	86	86	86	86	86	86	86
Innovation is usually only developed within a single organization	Pearson Correlation	0.081	.218*	-0.034	0.194	.253*	.213*	0.148	1	.297**
	Sig. (2-tailed)	0.46	0.044	0.759	0.074	0.019	0.049	0.175		0.006
	N	86	86	86	86	86	86	86	86	86
Innovation is a permanent and a systematic process	Pearson Correlation	0.102	-0.033	-0.099	0.098	-0.015	0.132	0.02	.297**	1
	Sig. (2-tailed)	0.348	0.762	0.366	0.37	0.893	0.227	0.856	0.006	
	N	86	86	86	86	86	86	86	86	86
. Correlation is significant at the 0.01 level (2-tailed).										
*. Correlation is significant at the 0.05 level (2-tailed).										

Source: Author's calculations

As for the correlations, a significant positive relationship is found between customer feedback and having enough resources to respond to customer needs. Whereas, perception that innovation should be a permanent and systematic process has shown significant correlation with developing innovation in house. In comparison to these factors, the majority of managers think that innovation cannot be developed only in laboratories. Based on the correlations, a positive relationship is found between the perceptions of innovation as an activity for all sized projects (for further information regarding these correlations refer to Table 5).

4.2.2. Innovation management characteristics in Kosovo

As it can be noticed from Figure 4 almost half of companies have innovated 2 to 5 times (48.8%), followed by 29.1% of companies that have innovated more than 10 times. While in average, companies in Kosovo tend to innovate 6 to 10 times in their lifetime.
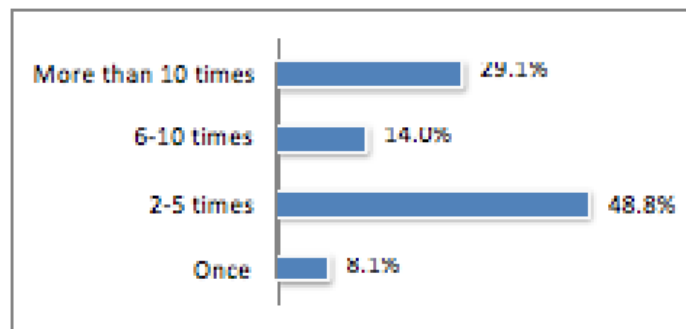

FIGURE 4 - INNOVATION FREQUENCY
Source: Author's calculations

Regarding the forms of innovation found in medium and large firms in Kosovo, managers responded differently however there couldn't be found any significant difference among the types of innovation. Data analysis indicated that the most frequent types of innovation include process innovation (80.2%), new service development (73.3%) and organizational innovation (70.9%). Business model innovation and business strategy innovation are among the least developed innovations found in Kosovo firms.

TABLE 6 - TYPES OF INNOVATION IN KOSOVO

Types of innovation	%
Process improvement	80%
New product/service development	73%
Organizational innovation	71%
Innovation in Marketing	70%
New product development	66%
Technological innovation	65%
Business management (model) innovation	52%
Business strategy innovation	50%

Source: Author's calculations

As for the novelty of innovations in Kosovo firms, data analysis shows that most of the innovations are novel in the country context (48.8%). Interestingly enough, 40.9% have stated that innovations were also new for their companies while only 10.2% have stated that their innovations were novel in the global scale.

In this research, the degrees of innovation proposed by Ariss and Deilami (2012) isn't used since most of the managers are unfamiliar with the notion of degrees of innovation, instead two traditional variables to investigate the extent of innovation degree within companies are utilized.
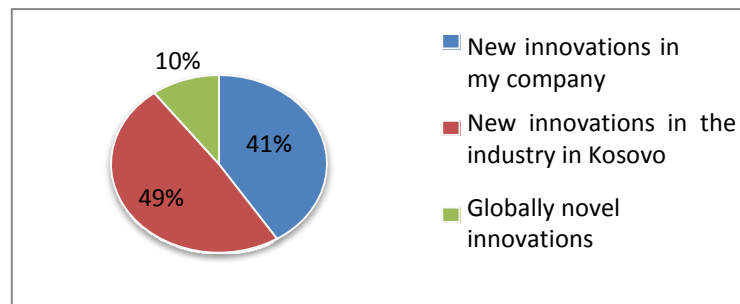

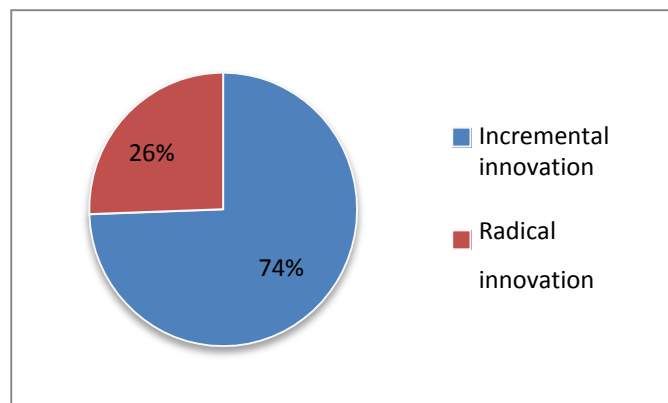FIGURE 5 – NOVELTY OF INNOVATION
Source: Author's calculations

FIGURE 6 – DEGREES OF INNOVATION
Source: Author's calculations

Consequently, the results show that most of the companies in Kosovo have developed incremental innovations (74.4%) whereas only 25.6% of companies in Kosovo have been engaged in radical innovations.

In summary, innovations in Kosovo are characterized by small-scale improvements mainly related to processes, products and services. The average frequency of innovations is 6 to 10 times and the degree of novelty is within country respectively organizational context.

5. DISCUSSIONS AND CONCLUSIONS

Starting from the definition of innovation and understanding of innovation management practices, according to findings, most managers tend to associate "innovation" with "idea" whereas "management" with "implementation

or generation" of new services and products. These findings are supported by authors like Sawhney, Wolcott and Arroniz (2006) who in their definitions of innovation state that idea generation and the process of ideas development into implemented projects is an integrative part of the innovation management process. One essential factor that managers associate with innovation is the ownership of enough resources (material and human). Findings suggest that perception of having enough resources is also an integrative part of innovation management which determines the ability to engage or not in innovation processes, therefore, this finding stands in positive relation to arguments of several authors (Bornay-Barrachina et al., 2012; Crook et al., 2011) that in order to be able to innovate, companies must have enough resources.

Switching the discussion to the continuity of the process, findings suggest that the majority of managers perceive innovation as a permanent and systematic process. This finding just reinforces the definition of Navickas and Kontautienė (2013) regarding innovation and strengthens the arguments of Sawhney, Wolcott and Arroniz (2006) and Vila and MacGregor (2010). Findings also suggest that systematic innovations are in positive relationship with the conservation of innovations within an organization. This finding brings light into the characteristics of Kosovo firm managers who are acquainted in working in house and this might be a unique characteristic of innovation in Kosovo. Findings suggest that Kosovo firms are moderately innovative in terms of frequency of innovations. The most common type of innovation in Kosovo is process innovation, which stands in relationship with quality improvement and cost reduction. Other significant types of innovation found in Kosovo firms are new services or product innovations, what by many authors (Francis and Bessant, 2005; Ariss and Deilami, 2012) are the most common types of innovations found in organizations. One neglected form of innovation found is business model innovation. According to several authors (Chesbrough, 2010; Navickas and Kontautienė, 2013) business model innovation is essential in cultivating a culture of innovation and organizational structure that supports innovation. Analyzing organizational structures, findings suggest that firms without separate R&D departments tend to innovate more frequently in comparison with those who do. This finding is in contrast with claims of O'Connor and DeMartino (2006) who state that companies that want to increase their innovativeness should have separate departments dedicated exclusively for innovation. However, this argument is limited since the number of innovations within a certain period cannot be an appropriate measure of firms' innovativeness.

Authors like Phelps (2010) and Jiménez-Jiménez and Sanz-Valle (2011) have indicated that hierarchical structures tend to hinder innovation and negatively impact innovation processes and thus they have proposed more open and flexible structures. However, in contrast with their indications, findings suggest that hierarchical structures have a statistically significant positive effect on innovation and particularly on innovation frequency.

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