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## IMPACT OF INNOVATION ON THE GROWTH AND DEVELOPMENT OF SMEs IN BOSNIA & HERZEGOVINA

**Abstract:** *Small and medium enterprises are by their very nature almost compelled to seek their place on the market through the implementation of innovative processes and innovations. Innovation is one of the processes that contribute to sustaining the competitiveness of the company, showing the operational flexibility and the ability to acquire new knowledge, that is, a favorable exchange of information with its environment in which it operates. This paper presents an overview of the innovation impact in SMEs in Bosnia and Herzegovina, observing the impact factors in which innovation influences growth and development, and thus the overall success of the company.*

**Keywords:** *Innovation, Competitiveness, Innovation impact*

### 1. Introduction

The notion of innovation to Drucker is that it's a unique tool for entrepreneurship and the activity through which new resources are created for the improvement of general welfare. It represents the transformation of a new idea into a new market or enhanced service, or product (Drucker, 1985).

It is very important to distinguish the concepts of invention and innovation. According to the source (Fagerberg, 2005), the invention can be presented as a creation of an idea about a new process or product, while innovation transforms that idea into practice. Because of the different requirements in creation of new ideas and their implementation, there is a time gap between invention and innovation. Different types of knowledge, skills and resources are needed to transform the invention into innovation. It may also require a greater number of inventions to make a successful innovation.

However, innovation does not imply only

grandiose technological breakthroughs, based on significant inventions, which change the course of history on a larger scale. Small incremental improvements to existing products, processes and services, adaptation to the market or customer, as well as locating and addressing painful points can also be categorized as innovation (Birkinshaw, 2008).

Due to the worldwide process of globalization, innovation is an essential element for companies in terms of "survival" in the global market competition, maintaining competitiveness, improving economic performance and growth, and contributing to national economic development. Economic growth achieved with competitive advantage increases employment and production, and leads to economic development and the growth of social welfare. When sustainable growth is achieved, companies focus on innovation, and increase their ability to meet new demands with new products, services and processes (Dereli, 2015).

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Of course, innovation does not appear by itself, but for its materialization it has to be placed in certain boundaries and directed towards a specific goal. This all means that innovation occurs in a particular environment, where people, management and workers play a central role, with organized and harmonious aspiration towards a certain collective goal. Innovation is considered a vision, concept, strategy, but also a solution (Țîtu, 2015).

Innovation always starts as a thought process, that is, as an idea and vision based on resolving a particular problem. This problem can occur during the fulfillment of a particular goal, but it can be a goal in itself. This view gives innovation a certain duality, as the innovation vector can have two directions - inward and outward, depending on the innovation initiative.

Innovation at the organizational level can be seen as a multilayered and multifaceted construct, conceived as a process, but also as an outcome (Sears & Baba, 2011).

According to Damanpour (Damanpour, 1991), innovation is defined as "the adoption of an internally generated or purchased device, system, policy, process, product, or service, which is a novelty for the organization that is adopting it."

Novelty is a common term used to define innovation, which is relative because the unit where the adoption takes place can be based on a person, a project team, an organizational unit, a sector, or a larger social system (Walker, Chen & Aravind, 2015).

## 2. Innovation in enterprises

As already mentioned, innovation in enterprises can have a dual role. In the new era of information technologies, there is also a huge growth of new businesses, which exploit innovations for achieving a favorable market positioning. Also, it happens that newly established companies, after their initial success, stagnate or eventually fail,

losing their competitiveness on the market.

The success of the company depends not only on the existence of innovation, but also on its exploitation, as well as on continuous improvement and innovation within the company. Therefore, it can be said that innovation influences various aspects of the company's business, and that there are various effects on innovation.

Thus, within the company there are two sets of influences related to innovation - the impact of innovation on the enterprise, and the impact of the enterprise on innovation, with which innovation processes can also be divided into innovations within the organization, and innovation in the product or service (Walker, Damanpour, & Devece, 2010).

Innovation in organization and management is generally applied in order to improve the efficiency of processes and procedures within an enterprise, while innovations in the product or service are oriented towards meeting the needs of the client (Walker, Damanpour, & Devece, 2010).

From this it can be noted that one of the important tasks of management is a preservation of innovation within the company.

Qualified individuals within the company play a very important role in the innovation process and represent a key resource (Zolnik and Sutter, 2010), where highly skilled workers increase the capacity of innovation development, due to their analytical thinking and a broad knowledge base (Wu, 2010).

Also, different types of workers have a different knowledge related to the organization, which enables individuals to make suggestions in relation to their specific skills, that are related to the general goal of the company (Avlonitis, Kouremenos & Tzokas, 1994).

### 2.1. Innovation management

Innovation entails a specific process, which can be viewed as a controlled and organized

sequence of activities in which the input data, in the form of innovative ideas, are transformed into innovation as an outcome (Lendel, Hittmar, & Siantova, 2015).

Innovation management entails the management activities that organizations undertake in a controlled process of irregular and complex structures, with the aim of adapting to changes in the internal and external environment. The concept of innovation, when used individually, implies a "process", but also denotes control and management of innovation in implementation when the concept is used in terms of innovation management (Drucker, 2003)

A precondition of certain control and organization of activities creates a basis for the existence of the specific management. In this case, it is innovation management, which has the task of leading the innovation process, creating an environment for generating innovative ideas, monitoring their implementation, and collecting feedback on the impact of innovation.

Basically, innovation management is the

introduction of a new structure, process, system, program, or practice in the organization (Evangelista & Vezzani, 2010).

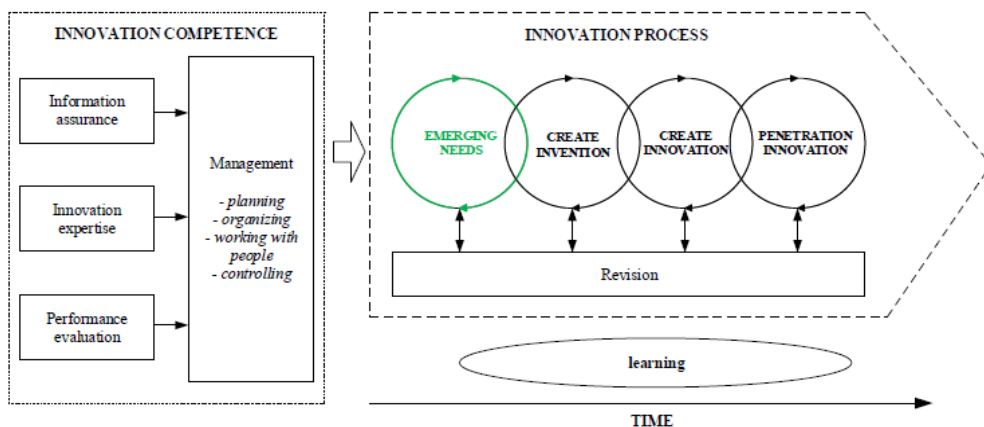
As a topic, innovation management has been in the focus of many companies only in the past few years, so the analysis of influential factors is still rare (Mol & Birkinshaw, 2009).

Managing innovative processes is a complex task, and requires effort and commitment from enterprise managers, and involves a number of influencing factors. One of these factors is the lack of a unified, and at the same time transparent, management model for innovation in enterprises. (Lendel, Hittmar, & Siantova, 2015).

One of the solutions that takes many influential factors is presented by Hamel (Hamel, 2002), which is composed of two parts:

1. Competencies that need to be developed within an enterprise,
2. Processes that need to be developed within the company.

This solution is presented in Figure 1.



**Figure 1.** Solution that takes many influential factors (Hamel, 2002)

Figure 1. shows that a set of competencies that need to be developed within the company is made of activities related to the organization's preparation to enter the

innovation process, and this set envisages planning, providing information and expertise, and evaluation of the current performance parameters.

In the second phase, it is possible to notice that all activities are presented as cycles, in which feedback is observed and a continuous revision of each activity takes place, all based on continuous learning and research.

Thus, it can be noticed that the first phase is of closed character and is essentially reduced to the internal activities of the company, which prepare the company for something new, that is, to the introduction of novelties, while the second phase focuses on openness to the environment with which it exchanges information.

For this exchange of information, which is the fundament of the second phase, it is necessary to constantly collect information as well as to enable their constant processing.

### **3. Analysis of the impact of innovation on the growth and development of SMEs in Bosnia and Herzegovina**

The transition period in Bosnia and Herzegovina is completed, at least formally, so it is considered as a post-transition country, and as such it is located on the "intersection" of states in the emergence and development, on one, and developed countries, on the other side.

This title can have two perspectives, as well. In one sense, B&H on the macro-level in some part is deprived of its traditional industries, as the capacities that were developed in the previous period are technologically obsolete, and in large part even perished. Unlike some big states, which have some kind of a tradition in certain fields, such as Germany, France, Spain, Saudi Arabia, Russia, Japan, China and others, B&H is compelled to rebuild its image of entrepreneurship, and hurriedly adopt knowledge and follow in the new world trends.

On the other hand, this fact allows for the creation of a large number of small and medium-sized enterprises, which are forced

to accelerate their progress, map the good practices of foreign companies by implementing innovative processes.

It can be said that the only way of survival of businesses in B&H is possible through their ability to quickly adapt to the market, have flexible operations, and disruptive effects on the local and global market through innovative solutions.

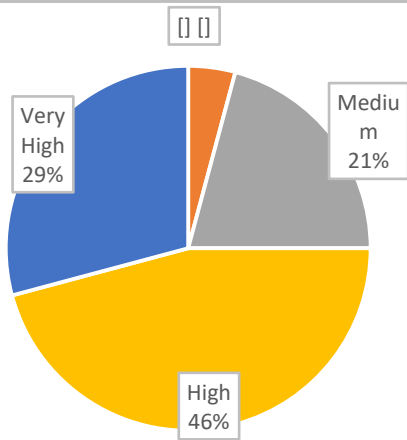
### **4. Survey analysis**

In order to create an environment that supports the development of innovations in B&H, in accordance with the assumptions given in (Hamel, 2002), it is necessary to conduct ongoing market analysis and studies in order to monitor the development of internal competences and processes related to innovation, as to verify whether the company's management in B&H records and analyzes growth and development and the innovation impact.

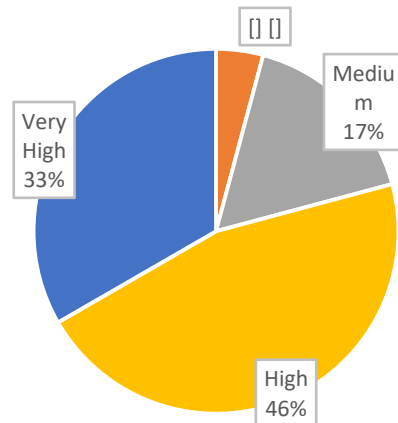
Very important factors for the growth and development of SMEs are good competitiveness, positive financial results, as well as favorable market position. Innovation is one of the key processes, which affects all these factors. Therefore, an analysis was carried out on the sample of 25 small and medium enterprises in the territory of Bosnia and Herzegovina in order to determine the degree of innovation impact on these factors.

Competitiveness is directly related to innovation processes, or lack of innovation, which has a proportional relationship. It is assumed that a company with implemented innovation processes has better competition on the market by the fact that it seeks to improve existing processes, on the market or within the company.

Figure 2 gives an overview of the impact of innovation on competitiveness, with a percentage share of different answers to the question.



**Figure 2.** Innovation impact on competitiveness



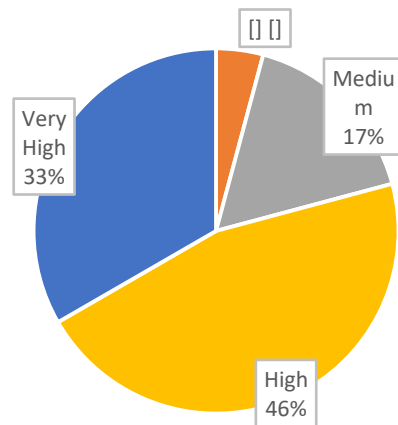
**Figure 3.** Innovation impact on financial results

A similar situation is with the market position and financial results. These are the two aspects for which each company needs to provide a balance. Each company should strive to take on a better market position, without compromising the continuous improvement of financial results, which directly ensures further development of the company.

Figure 3 gives an overview of the impact of innovation on the financial results.

As previously explained, these two aspects are viewed separately, given the assumption that the company can have a good market position, with very weak financial results, which should be avoided as an extremely unfavorable case.

Figure 4 gives an overview of the innovation impact on the market position.



**Figure 4.** Innovation impact on market position

Figures are presented with a percentage share of each of the answers in order to gain a better picture of the influence, that is, the importance of innovation on certain factors related to the growth and development of the company. As it can be seen, no response in any figure marks "very low" significance, or impact for that matter, as the percentage share of that answer is 0%.

## 5. Conclusion

Innovation is one of the key processes in SMEs, which ensures a favorable market position, sustained competitiveness, and positive financial performance, which ultimately results in the overall success of the companies.

The study conducted on SMEs, analyzed in this paper, showed that the impact of innovation on competitiveness, market position and financial performance was very favorable. In all companies surveyed, the impact of innovation was highly or very highly related to the achievement of overall positive results.

This fact shows that companies that strive to develop competencies and processes of innovation in their work, and implement the proactive exchange of information and knowledge with the environment, in order to continuously learn, improve and perfect their

services, products and processes in the management, will have a positive impact on the general business.

The beneficial effect of innovation on competitiveness, market position and financial performance, points to the essentiality for innovation in the company.

In this regard, it is very important to develop a suitable environment for innovation within the company, for the purpose of successful business operations, as well as ensuring social and financial welfare in the environment. Also, the management of each enterprise has a very important role to constantly manage the processes of innovation, control and stimulate exchange of knowledge and information with the environment, improve the competencies of the organization and enable the smooth development of innovation culture within the company.

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