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**Managing Service Innovation in
Albania: Banking Sector and
Telecommunication**

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Managing Service Innovation in Albania: Banking Sector and Telecommunication

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Abstract

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 that consider that these new thing as innovation and so fewer are those who understand that innovation has become an inseparable part of our life. Innovation has always been a wanted area for organizations in any country. What about Albania? Albania has an "innovation deficit" and it is significantly considered as less innovative countries in the world. But even though Albania is not in desirability position, may say that for those companies operating in Albania the innovation is a key of success. The aim of this paper is the study of innovation, the significance that it has and how it applies to our country. Innovation is precious for companies and may be the key to their success. We have read many scientific articles that talk about innovation and its importance in society but actually we have seen so few studies that bear the signature of an Albanian researcher. This was the main reason why we have tried to do a search for that term and how it is considered in our country. We have taken into consideration banking sector and telecommunication. 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.

Keywords: innovation, innovation process, innovation product, performance

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 that consider that these new thing 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 developed 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.

Research in this article aims to reconcile theory and praxis 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 objectives of the study and the rational of the study. 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 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.

Research Objectives

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

1. How is innovation performance in Albania country?

2. Do banking sector and telecommunication applies innovation in product, service or process?
3. How important has been for the company this innovation in product, service or process?

Rationale of the Study

This article is important to the companies in the telecommunication and banks industry to know how is use 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 applied innovation 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 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 May to November, 2013.

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). 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 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, as Capon et al. (1992), 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. The study results appear on December 2013.

Innovation Performance in Albania

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 2011-2012. This puts in risk the competitiveness (ranked 78th out of 142 countries) and sustainability of economic growth and employment. However, Albania is ranked 62 and in terms of technological capacity.

In the Global Competitiveness Report 2011-2012, 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.

Technological readiness, Albania ranked 62. Is an indicator with 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 they 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 using the most sophisticated production processes and innovation. At this stage, Albania is ranked 102.

Innovation, Albania ranked 123. Under the indicators that influence these indicators are:

- The capacity for innovation, ranked 119
- Quality of scientific research institutions, ranked 134
- Expenditure on R & D companies, ranked 51
- Cooperation university-industry R & D, ranked 139
- Government procurement in advanced technology products, ranked 58
- Availability of scientists and engineers, ranked 126

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 last in comparison with other Western Balkan countries (table 1).

According to Jonida Narazani (2011, p.28): “There are two main factors that present challenges for funding of innovation policy. Firstly, there is the limited share of GDP dedicated to R&D and innovation in the country. Secondly, is the still-constrained innovation creation and absorption capacity

resulting in part from the fact that the country has tended to purchase innovations on the market rather than developing them domestically.“

Table 1. *Innovation in Western Balkan Countries*

Country/Economy	Innovation and sophistication factors		Innovation	
	Rank	Score	Rank	Score
<i>Albania</i>	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.

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 asked if the firm had tried to innovate.

Product Innovation

The survey of 104 companies, in respect of innovation for this product, 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). 72.1% have claimed to have introduced to the market new services or significantly improved (table 3). 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. *During the three years 2010-2012, did your enterprise introduce new or significantly improved goods?*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	61	58.7	58.7	58.7
Valid No	43	41.3	41.3	100.0
Total	104	100.0	100.0	

Table 3. *During the three years 2010-2012, did your enterprise introduce new or significantly improved services?*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	75	72.1	72.1	72.1
Valid No	29	27.9	27.9	100.0
Total	104	100.0	100.0	

Process Innovation

During the three years 2010-2012, 60.6% of the companies introduce new or significantly improved methods of manufacturing or producing goods or services only 39.4% didn't introduce. 68.3% said yeas for new or significantly improved supporting activities for processes (table 4 and 5). 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 4. *During the three years 2010-2012, did your enterprise introduce new or significantly improved methods of manufacturing or producing goods or services?*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	63	60.6	60.6	60.6
Valid No	41	39.4	39.4	100.0
Total	104	100.0	100.0	

Table 5. *During the three years 2010-2012, did your enterprise introduce new or significantly improved supporting activities for your processes?*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	71	68.3	68.3	68.3
Valid No	33	31.7	31.7	100.0
Total	104	100.0	100.0	

The tables 6 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 is small and I can say that the standard deviation is close to the average.

Table 6. *During the three years 2010-2012, did your enterprise introduce*

		New or significantly improved goods.	New or significantly improved services.	New or significantly improved methods of manufacturing or producing goods or services	New or significantly improved supporting activities for your processes
N	Valid	104	104	104	104
	Missing	0	0	0	0
	Mean	1.41	1.28	1.39	1.32
	Median	1.00	1.00	1.00	1.00
	Std. Deviation	.495	.451	.491	.468
Percentiles	100	2.00	2.00	2.00	2.00

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.

Our analysis was based on questions. The first question: How is innovation performance in Albania country? 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 2011-2012. This puts in risk the competitiveness (ranked 78th out of 142 countries) and sustainability of economic growth and employment. I can say that Albania companies make innovation (process or product) by own without any support of the state.

The second question: Banking sector and telecommunication applies innovation in product, service or process? We can say that banking sector and telecommunication applies innovation. More than 60% applies process and product innovation. 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.

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