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**Internal Environment and Innovation in Service Sector.  
The Evidence from Albanian Context**

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**ABSTRACT**

This paper aims to identify the connections between the various innovative practices with the micro environments in the services sector in a developing economy. The study will specifically focus on the Albanian services sector including banking and telecommunication. According to the purpose of this study there are following the qualitative and quantitative methods. Secondary data is retrieved from an extended literature review on management and innovation which has also served as a basis for the hypothesis of this study. Meanwhile primary data is retrieved from the surveys distributed and completed by 170 companies in the banking and telecommunication sector. The data are empirically tested using multiple linear regression. Results showed that allienca and collaboration are not statistically significant to innovation practices. Whereas, market orientation, management orientation, technology and learning orientation are not only statistically significant but also have a positive impact on innovation. As result, by improving those internal factors, innovation practices within the services sector can grow healthily.

Keywords: micro environments, practices innovation, services sector, Albania.

## **Background**

Innovative ability depends on firm's strategies and market conditions (Martinez- Romano, Gamero & Tamayo 2011). These last one make it possible for the firm to compete with competitors and to achieve success in the market (Sirmon & Hitt 2009). So, resource management and innovative capacity is the key to increase the firm's benefits (Kume 2010).

Strategic management literature has shown that a number of internal environmental factors have influenced the competitive advantage and success of the firm, including technology and innovation (Hitt, Hoskisson & Ireland 1990), human resource management practises and internal structures (Bacon Et al. 1996). Previous research studies emphasize the importance of intangible resources and the ability of a company to maintain its competitive advantage (Oliver 1997), such as intellectual capital that is difficult to be imitated by others (Peteraf 1993).

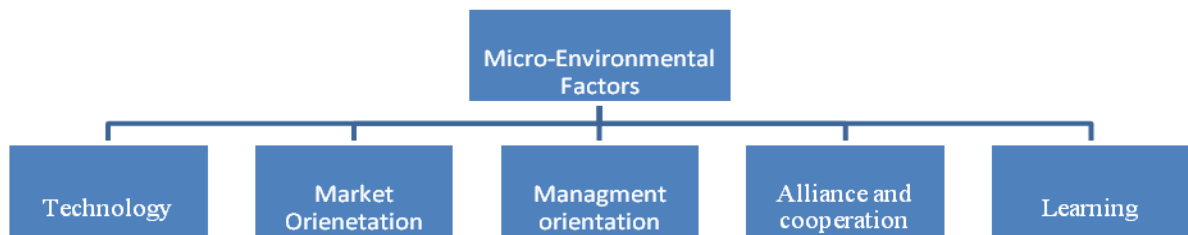
In intellectual capital are included: human capital (characteristics, knowledge, skills and abilities), organizational skills (technology, processes, patents, and networks), and social skills (connections with clients, suppliers and partners). These lastes are strategically important assets in which the firm should focus on increasing its innovation efforts under the control and use of resources as well as enhancing competencies and capabilities (Martinez-Romano, Gamero & Tamayo 2011).

Also another important element of the internal environment of the company's is the learning process. This one can increase the creativity of firms and their ability to identify new opportunities, including various learning processes, providing increased skills and techniques, and adopting institutionalization of innovation (Van de Ven 1986).

It is important to note that managers have the task of encouraging employees to utilize the company's time in order to develop knowledge that can be stretched out of the direct objectives of their work. Through inter-functional integration, employees need to learn and develop new skills and share existing knowledge, which are very important for innovation development.

Taking into account the above discussions, the micro-environmental factors that will be envisaged in this paper are: management orientation, learning orientation, technology, alliance and cooperation, and market orientation.

**Figure 1. Micro-Environmental Factors**



*Source: Hitt, Hoskisson & Irelandw 1990; Xu et al 2007; Martinez-Romano, Gamero & Tamayo 2011*

### **Internal-Environmental Factors and innovation practices**

Micro-environmental factors are those internal factors that can alleviate or prevent the company's ability to innovate, increasing or preventing innovative behaviours (Avlonitis & Gounaris 1999). The micro environment is seen as a five dimensional structure represented by: orientation of management, orientation of learning, technology orientation, alliance and cooperation, and market orientation.

**Technology Orientation** This concept is related to technological policies in the company. Technology is a firm success factor in achieving both competitive edge and successful innovation (Henard & Szymanski 2001). Technological opportunities can influence the value and direction of innovation (Nemet 2009). A technology-oriented firm offers customers who prefer technological products and services, new and better technologies, and technical solutions (Gao, Zhou & Yim 2007). The company's technological capabilities in creating products and services according to consumer and market needs produce successful innovation (Berkhout, Hartmann & Trott 2010).

A firm, implementing new technologies, has more opportunities to produce high-quality products and produce new products and services (Hjalager 2010). A firm with skills and technological resources can support its operations and the development of innovative products and processes (Ellonen, Jantunen & Kuivalainen 2011).

Further, the domestic technological policy reflects the attitude and commitment of the firm to innovate (Wilson, Ramamurthy & Nystrom 1999). A firm that combines innovative consumer value and the use of innovation technology has a better chance of enjoying sustainable profits (Humphreys, McAdam & Leckey 2005). Demand-seeking companies have more consolidated technological positions than defenders and analysts (Snow & Hrebiniak 1980). Thus, technological approval in Albania varies for different firms depending on

the dynamism and market competition. The speed of technological change can not encourage long-term investment in technological skills and resources.

Market Orientation, this concept is related to consumers, competitors, and the exchange of market information with the firm. A market-oriented firm has "acquired knowledge about clients and other market participants, sharing this knowledge extensively across the organization.

Han et al. (1998) sees market orientation as a corporate culture. Fritz (1996) finds out that market orientation is important for corporate success. Previous research studies have created a positive relationship between market orientation, innovation and business. Slater and Narver (1994b) see innovation as a value created by the core skills that govern the relationship between market orientation and performance. Deshpande, Farley, and Webster (1993) talk about a strong link between market orientation and innovation to achieve high performance business results. However, Lumpkin and Dess (2001) recognize market orientation as a positive factor contributing to competitive advantage. Jaworski and Kohli (1996) add that innovation is not presented in the market orientation model and that innovation should be considered as a result of market orientation.

However, the effect of market orientation on innovation has been known recently (Reijonen et al 2012). Companies with strong market orientations may have the most innovative viewpoints to meet customer requirements and market conditions, to proactively imitate competitors' actions, and to disseminate the knowledge and information gained with inner businesses in order to contribute to innovative products and services and to achieve the highest performance in business performance (Dibrell, Craig & Hansen 2011). Companies with close relationships with customers, suppliers, and outsourcing purchases tend to have more success in innovation (Lukas & Ferrell 2008).

Lack of market and information research in Albania is another limiting factor for the service sector to seek and understand the behaviour of consumers and competitors and to have diversification in the future; Also weak market regulations and high market competition may affect innovation initiatives in response to ongoing changes in the external environment.

*Management orientation is about the management features and strategic direction of a company.* Key managers' characteristics and competencies (eg leadership and interpersonal skills) are important indicators for innovation (Smith, Guthrie & Chen 1986). Management orientation seems to play an important role in determining and deciding a company to adopt and/or generate innovation (Cannon 1985). Companies with different strategic management directions vary in how they apply and develop their innovative behaviours. Also, companies can adopt strategies to create and support different interpretations of environmental information, which may affect the innovative behaviours and activities of their companies (Blumentritt & Danis 2006). Successful innovation requires strong management support and resource engagement (Cromer, Dibrell & Craig 2011).

Alliance and co-operation has to do with collaborative agreements and networks with business groups and supporting industries of a company.

Companies, having cooperative and network agreements with public and private organizations, have created an important mechanism for providing resources, competencies and competitive advantages (Soda 2011). Strategic business alliances and external networks with innovative partners are very important for companies as a resource and skills base (Snow et al 2011). They also provide more access to information, knowledge and technologies for companies, to compete and grow more effectively in the market. In Albanian market, businesses have followed individualist behaviour (i.e. personal connections and personal networks) with limited networks and limited buying co-operation in marketing activities; As well as their limited involvement in free trade zones and joint infrastructure affecting effective strategic alliance and effective strategic cooperation (Hertog 2010). All of these together can significantly affect their new skills and practices (Hertog 2010).

Orientation of Learning Researchers have come to the conclusion that organizational learning is related to the development of new knowledge. This is crucial to the firm's innovation capability and performance assurance ( Hult, GTM, 1998). Based on the literature, learning orientation is conceived as consisting of four factors: learning engagement, shared vision, open mind, and organizational knowledge (Hurley RF and Hult, GTM, 1998).

Cross-organizational knowledge is involved because a learning process cannot happen if an organization does not have an effective and efficient information exchange system that allows a review of past strategies, decisions, and enforcement activities (Moorman C & Miner AS 1998). In addition, the relationship between learning orientation and innovation is dependent on the organization's age (Lukas et al, 1996). The older the organization is, the stronger the link

Tushman and O Reily (1997) argue that a company that integrates innovation into the organizational culture and management process can achieve long-term success. A supportive culture can create value and encourage new ways to present problems and solving research (Buckler 1997). She sees the company as an open system with different sub-systems that interact together (Martins & Terblanche 2003). The company should adopt a learning philosophy through the development of integrative knowledge mechanisms to provide more innovative skills and customer value.

To further encourage innovation, knowledge already available within a firm must be clear, properly understood, and be adopted in specific innovations (Hjalager 2010). The learning process can increase the creativity of firms and their ability to identify new opportunities, including different learning processes, providing increased skills and techniques, and adopting institutionalization of innovation (Van de Ven 1986).

Previous research studies on the learning process have produced different results. Some researchers have found a positive correlation between the organizational culture of learning and innovation (Sanz-Valle & Jimenez Jimenez -2011), while others have found a negative relationship or no relation between them (Nasution et al 2011). From the above arguments, hypothesis is proposed as follows:

*Hi .Technology, market orientation, management orientation, alliance, and collaboration and learning orientation have a significant positive effect on the company's innovation practices.*

## **Methodology and Hypotheses**

In this paper it is applied as heuristic approaches theoretical and quantitative methodology, which lead to the development of a quantitative tool as a questionnaire. The study is based on a sample of 170 companies of the telecommunications industry and the banks. This sample of 170 owners / managers of banking and telecommunications industry is taken from the database of the Bank of Albania and Authority of Electronic and Postal Communications (EPCA). The study used a cross-sectoral approach and a structured questionnaire, self-administered study and data collection. The questions used to measure variables in the questionnaire initial study are based on a wide review of relevant literature and discussions in pilot group of individuals (i.e. including owners /managers companies and academic researchers). The data obtained from the questionnaires to investigate the proposed hypothesis are empirically tested using multiple linear regressions.

## **Results and Discussion**

To test this hypotheses and answering the research question presented above is used multiple analysis regression.

$$\hat{Y} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_{i,n} + \epsilon_i$$

To determine which of the factors affecting the innovation practices, we realized the analysis of multiple regression, where in this case as the dependent variable *practice innovation* and independent variable have: ***Technology, market orientation, management orientation, alliance, and collaboration and learning orientation***. Initially conducted descriptive statistics of independent variables. It used the Linker's scale to measure these variables 1 = "Not at all agree" to 7 = "strongly agree". These descriptive statistics is shown in table below. As shown by the following data (Table 1), say that the higher the value the higher is the interest to use these factors.

**Table 1. Descriptive Statistics for the Variables under Consideration\***

Variable	Min	Max	Mes	Std.Dev
<i>Management orientation</i>	2.00	7.00	5.2895	1.12670
<i>Learning Orientation</i>	1.00	7.00	4.9386	1.39077
<i>Technology</i>	2.00	7.00	5.6842	1.39732
<i>Alliance and collaboration</i>	2.00	7.00	5.8596	1.24002
<i>Market orientation</i>	2.00	7.00	5.4298	1.27584

Note: \* Independent variable of macro environmental

In the case of analysis regression, an important element is the uses of the correlation analysis, initially to evaluate how connected are with each other independent variables with each other. According to Hair et.al (2006), the values of the correlation between (-0.7) and (0.7) do not cause problems to continue further. In case of the correlation did not prove beyond these borders. Below there are the correlations between the four variables (see Table 2) and there is no multicollinearity.

**Table 2. Correlation between Independent Micro-environmental Variables**

Variable	1	2	3	4	5
<i>1.Learning Orientation</i>	1				
<i>2.Market orientation</i>	.534**	1			
<i>3.Managment orientation</i>	.497**	.578**	1		
<i>4.Aleance and collaboration</i>	.236*	.497**	.365**	1	
<i>5.Technology</i>	.591**	.697**	.656**	.367**	1

Note:\*\* Correlation is important for the level of importance 0.01

\* Correlation is important for the level of importance 0,05

From the multiple linear regression analysis, one of the variables and, specifically, the "alliances and collaborations" variable, which did not result in significant departure from the analysis, see the table below (Table 3).

**Table 3. Analysis of the Internal Environment\* Regression for the Dependent Variables "Invitation Practices"**

Variable	R <sup>2</sup>	R <sup>2</sup> adjusted	Value of t	P
(constant)	.727	.715	1.480	.141
<i>Management Orientation</i>			3.416	.001
<i>Learning orientation</i>			3.390	.001
<i>Technology</i>			3.546	.001
<b><i>Alliance and Collaboration</i></b>			.704	<b>.483</b>
<i>Market orientation</i>			2.306	.023

Note:\* Management Orientation, Learning Orientation, Technology, Alliance and Collaboration, Market Orientation.

While the other four variables that were statistically significant were subjected again to the multiple linear regression analysis.



**Table 4.** Analysis of the Internal Environment\* Regression for the Dependent Variables "Innovation Practices"

Model	R <sup>2</sup>	R <sup>2</sup> adjusted	Value of t	P
	.726	.716		
(constant)			2.055	.042
Management orientation			3.934	.000
Learning orientation			3.359	.001
Technology			3.538	.001
Market orientation			2.411	.018

Note: \* Management orientation, learning orientation, technology, market orientation

From this multiple regression analysis, these four independent variables explain 71.6% of variance of the dependent variables "innovative practices", and say, this is not a result of the chance (R<sup>2</sup> adjusted = 0.716). Among these variables there is an independent variable "technology" with unequal coefficient B1 = 0.245 higher than the independent variable "management orientation" with coefficient B2 = 0.236, "market orientation" with coefficient B3 = 0.176 and "learning orientation" with coefficient B4 = 0.161. While, the value of F (4,114) = 72,245 is significant (p = 0,00) for the control level (0,05) because in the concrete case we have p = 0,000. From the estimation made by the statistical test for the control of individual regression coefficients we have the same result (t1 = 3.934 and p = 0.000; t2 = 3.359 and p = 0.001; t3 = 3.538 and p = 0.001; t4 = 2.411 and p = 0.018). Using unregistered regression weights, the multiple regression equation can be represented as follows:

$$\text{“Innovative practices”} = 0,575 + 0,245 \text{ “technology”} + 0,236 \text{ “management orientation”} + 0,176 \text{ “market orientation”} + 0,161 \text{ “learning orientation”}$$

This means that alliances and collaborations don't have a significant positive effect on innovation practices. Market orientation, management orientation, technology and learning orientation have a significant positive effect on innovation practices.

## Conclusions

The analysis showed that management orientation, learning orientation, technology and market orientation are statistically significant in relation to innovation practices in the context of the services sector in Albania. Alliances and collaborations are not statistically relevant with regard to innovation practices. The author through multiple linear regression analysis concludes that the strongest impact on innovation practices is "technology" and then comes "management". Consequently, companies including these internal factors make innovation practices within the service sector flourish.

This study shows that internal environmental factors are contributing to the development of innovative skills in the service sector. For the service sector in

Albania, innovation skills thrive and are successful if innovation practices rely on market dynamics, management orientation, technology orientation, learning orientation, and market orientation. This can be accomplished by enhancing their innovative skills and competencies.

First, the characteristics of company owners/managers and strategic direction toward innovation play an important role in shaping and supporting decisions, to adopt and/or generate innovation. Managers are also recommended to incorporate innovation as a strategic goal and to have ambitions in the future, focusing on long-term objectives, exploring new opportunities, and disseminating resources for research and development activities; Second, technology policies and new technologies play an important role in improving internal processes and resource allocation. Third, important factors influencing innovation are alliances and collaborations. Business networks and links help to effectively co-operate with suppliers and subcontractors as well as identify strategic partners and support industries to explore new knowledge, improve resources and capabilities, search and development co-operation, As well as the sharing of innovation and risk benefit.

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