ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ
ECONOMIC STUDIES

Volume 31(4), 2022

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INNOVATION AS A SUCCESS KEY FOR MANUFACTURING SMEs: EMPIRICAL INSIGHTS FROM KOSOVO[4]

The purpose of this research is to analyse the impact of innovation types on the sales growth of manufacturing SMEs in Kosovo. The production base of the Western Balkan countries is very low, so innovations should be developed which are perceived as catalysts for increasing the production capacity of SMEs in these countries. In terms of methodology, the research sample consists of 200 SMEs from the manufacturing sector. The manufacturing sector is not very developed in Kosovo, so this number constitutes 90% of manufacturing SMEs. The achieved results were analysed through logic regression, processing them in the statistical program SPSS. The findings confirm the hypotheses that Marketing innovations and product innovations have a positive impact on increasing sales of these SMEs. Meanwhile, organisational innovations do not have an impact on increasing sales of manufacturing SMEs. This study was conducted with manufacturing SMEs in Kosovo, so the main limitation of this research is the non-inclusion of SMEs in other sectors. This research is of particular importance because there is no research that aims to study the impact of innovation types on increasing sales of manufacturing SMEs in Kosovo. Therefore, the results of this research can serve government bodies in drafting policies and strategies for the development of innovative activities of manufacturing SMEs.
Keywords: Innovation; Sales growth; Manufacturing SMEs; Kosovo; logic model
JEL: L25; L26; M20

1. Introduction

Like other countries in the Western Balkans region, Kosovo has undergone radical changes during the political and economic transition. As a result of special political characteristics, the country has been subjected to extreme conditions in the business environment that affect the development of SMEs during various stages. As an Autonomous entity in the former Yugoslavia, Kosovo was subject to national discrimination and the labour market, occupation

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[4] This paper should be cited as: *Ramaj, V., Cucovic, A., Jusufi, G. (2022). Innovation as a Success Key for Manufacturing SMEs: Empirical Insights from Kosovo. – Economic Studies (Ikonomicheski Izsledvania), 31(4), pp. 113-127.*

and finally, the war in 1999. This made Kosovo a unique case of transition on its path to economic and political transformation. The development of entrepreneurship and business activities are seen as the main sources of income and job creation that can help Kosovo in the process of economic recovery (Business Support Centre Kosovo BSC, 2011).

Entrepreneurs in post-conflict countries face economic and institutional barriers. Limited access to working capital, limited managerial and technical expertise are among the most pronounced limitations. In many transition economies, especially in the Western Balkans, the small enterprise sector has not grown fast enough to prevent rising unemployment, nor has it met its potential as a growth engine (Qorraj, Jusufi, 2019). Also, the number of businesses that conduct their activity electronically has not increased numerically. Firms need to be innovative to succeed in business activities (Rrustemi, Jusufi, 2021). Therefore, most firms in transition countries do not have sufficient potential for the development of innovations, especially new product development, so very few focus on business activities. In general, the concept of innovation is still a new term for firms in the Western Balkans region. The following table presents the innovations made by the enterprises of the Western Balkan countries.

Table 1

Innovation in Western Balkan enterprises

WB countries	% enterprises that introduced a new product/service	% enterprises that introduced a process innovation
Kosovo	56	45
North Macedonia	28	25
Serbia	40	20
Albania	9	4
Montenegro	25	15
Bosnia & Herzegovina	45	33

Source: Jusufi, et al., 2020.

All types of innovations are of particular importance to manufacturing firms. The conceptualisation of innovation and the level of development of countries moderate the link between innovative activities and success in increasing the level of production (Bıçakcıoğlu-Peynirci et al., 2019). Therefore, the impact of innovations on business performance or the growth of firms has found great interest in many studies in the field of marketing and enterprise management. Most of the findings of these papers and researches emphasise that innovative firms experience more growth than non-innovative ones (Colombelli et al. 2013; Jusufi et al. 2020).

However, in addition to innovations, other elements of the firm also affect their growth, such as the level of education of employees, the characteristics of entrepreneurs, the age of the firm, etc. Therefore, in this research, in addition to the variables related to innovation, some variables related to the characteristics of SMEs analysed are included, such as the level of education of employees, the size of SMEs. So, in addition to the type of innovation, in our research are also included variables that are thought to affect the success of exporting SMEs. In our judgment and the results achieved, it can be stated that these factors are among the most important that determine the success of manufacturing SMEs. The objectives of this paper are:

1. *Review of literature related to innovations and types of innovations;*
2. *Research on the impact of types of innovations on increasing sales of manufacturing SMEs;*
3. *Drawing conclusions regarding this issue.*

The novelty of this paper is that it is one of the few papers that has addressed the issue of innovations and their importance for Kosovar manufacturing SMEs. The significance of the research lies in the fact that it has provided empirical evidence that, in particular, product/ process innovations greatly influence the success of Kosovo's manufacturing SMEs. This paper has a special contribution both in applied aspects and in terms of research. From applied aspects, this paper provides information to manufacturing SMEs on which types of innovations are most accessible and most useful for their business. In terms of research, this research is one of the few researches that deal with the relationship between innovation and increasing the production of SMEs.

Initially, the literature will be reviewed, which deals with the types of innovations, the characteristics of marketing innovations, products and organisational ones, their impact on the growth of SMEs and their business and organisational performance, etc. The literature review section will present the hypotheses of this paper which derive from the literature review. After that, the research methodology will be presented, the research model as well as the results achieved from this research with 200 manufacturing SMEs in Kosovo. In the end, will be presented the conclusions reached from this scientific research.

2. Kosovo Economic Contex

Kosovo reached the highest rate of economic growth and development between 1965-1975. Qualitative changes in the production structure took place at this time. In the early 1980s, due to the political and economic crisis in the former Yugoslavia, the political and economic situation in Kosovo changed dramatically. Kosovo, like most of the countries of Yugoslavia, became embroiled in ethnic conflicts. GDP growth fell to an annual average of 1.8% at the beginning of those years, dropping further to 1.1% over the years 1986-1988. The early 1990s are characterised by the mass exclusion of Albanians from the public sector and a decline in domestic production to 10-30% of its capacity. This has also influenced the boom in SME creation during the years 1990-1993 (Krasniqi, Mustafa, 2016).

According to World Bank reports, Kosovo is a low-income country which has experienced solid economic growth with an average of 3.4% and has grown every year since the 2008 global financial crisis. Kosovo has higher economic growth than neighbouring countries, however, this economic growth remains insufficient to reduce unemployment, especially female and youth unemployment. Also, this increase is not enough to reduce migration abroad. With a population of about 1.8 million, with a GDP per capita of 3,480 euros, Kosovo continues to be the third poorest country in Europe. Due to Kosovo's low export base, export growth will primarily rely on external demand for metals, despite signs of increased service exports and export diversification (European Commission, 2020; Qorraj, Jusufi, 2021).

The specific historical and institutional context in Kosovo best reflects the opportunities and threats to SME-dominated private sector development. The development path of entrepreneurship in Kosovo begins with the so-called "small economy" during the 1970s and 1980s. Not aligned with the Soviet Union, Tito led Yugoslavia as a specific state model, the so-called self-governing socialism, which consisted of a mixture of elements of planned economy and market economy. These changes allowed the establishment of small private enterprises, which were limited in the number of employees they could employ, averaging 10 employees. Meanwhile, in agriculture, they were limited to the land area that could be owned by private farmers up to 10 ha (Dana, 2010).

But in Yugoslavia, the development of the small enterprise sector had marked regional differences. While it was very well developed in the northern province of Vojvodina, more or less comparable to Slovenia and Croatia, it was very underdeveloped in Montenegro, Macedonia and Kosovo. However, the existence of the private property, although limited, has played a vital role in private sector construction during the post-1989 reform period (Bateman, 2000). During the nineties, Kosovo had a very weak economy. This led to the dominance of shuttle-trade businesses, while the number of businesses of the more stable type, typical of more developed economies, was limited (Kastrati, 2012).

With the end of the war, Kosovo had to start everything from scratch. During this period, remittances (about 14% of GDP) and donor contributions, especially during the reconstruction phase, have stimulated the development of SMEs through the generation of high aggregate demand (Krasniqi, 2012). Although they make up almost the entire private sector, the number of SMEs in Kosovo is small compared to the countries of the Western Balkans region. Kosovo ranks last in the region with 25.5 SMEs per 1000 inhabitants (Riinvest, 2017).

Most of the active private enterprises in Kosovo are engaged in trade, about half of them fall into the wholesale and retail trade sectors. The same sector also employs the largest number of employees. Experts have consistently emphasised the manufacturing sector as crucial to the country's economic development. Although it remains small, the number of manufacturing enterprises seems to be increasing every year. According to a report by ABC Accelerator (2017), from 2012 to 2017, about 130 startups were created in Kosovo, but the survival of startups in Kosovo is generally very small and a large number of them fail, end the activity of after going through an incubator or grant program.

It should be noted that according to the source of funding donations committed by states, the value of donations committed to Kosovo was about € 1,117 million or 49.5% of the total. From international multilateral institutions, about € 1,067 million or 45% of the total, and from non-governmental organisations, about € 177 million or 7.3% of the total. The main donors are the United States with about € 296 million or 12.53%, followed by Japan with € 137 million or 5.82% and Germany with € 129 million or 5.48%, Denmark with € 94 million, Canada with € 75 million, Switzerland with € 71 million or 3.02%, the Netherlands, Bulgaria, Turkey, etc. So, international donations are one of the most important instruments that have contributed to creating the development base of the Kosovo economy.

3. Literature Review

There are different definitions of innovations in the literature. The process of creating new ideas in SMEs in order to increase business performance is an innovation. According to European Commission-Oslo Manual (2005), innovation is the implementation of a new or significantly improved good or service, or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. Innovations involve numerous activities which vary from firm to firm (Rogers, 1998; Pejic Bach et al., 2015; Bezdrob, Šunje, 2014). Authors like Oke et al. (2007); Chetty & Stange (2010) classify innovations as product, process, marketing, and organisational innovations. There is various research on the impact of innovation on the business performance of SMEs. Damanpour & Evan (1984); Deshpande et al. (1993); McGrath et al. (1996); Han et al. (1998); Hult & Ketchen (2001); Calantone et al. (2002); Garg et al. (2003); Stojčić et al. (2018); Milfelneret et al. (2019) in their studies claim that innovations have a positive impact on the business performance of firms. According to them, those SMEs that manage to develop innovations will have good business performance.

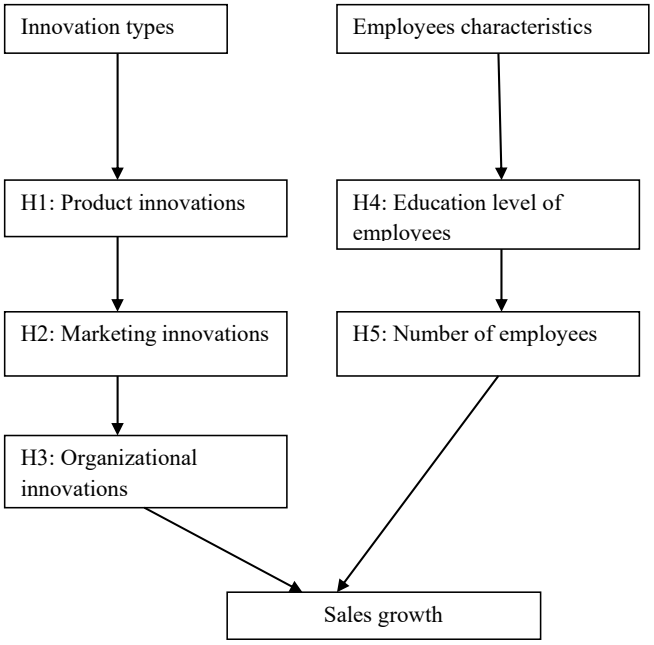
Karlsson & Olsson (1998); Lee et al. (2010), in their studies, concluded that product and process innovations are very important for SME growth. Also, Langley et al. (2005); Balakrisha Kanagal (2015) claim that product innovations are positively related to SME growth and performance. The best business performance depends on the product innovations that the firm develops. This is the result that has been achieved by Boziz (2011). However, according to Hoffman et al. (1998), innovations do not have an immediate impact on increasing the business activities of SMEs. A period must pass to see the impact of innovation on the growth of business activities. Love & Roper (2015) argues that not all SMEs can carry out innovative activities. Only those SMEs that are productive have a greater tendency for innovation.

Aralica et al. (2008) claim that the level of innovative activities of SMEs in different sectors stems from the characteristics of the markets where these SMEs operate. So market characteristics are more dominant in defining innovations than the technologies and processes of these SMEs. Lachenmaier & Woessmann (2004) conclude that innovations are of great importance in increasing the exports of manufacturing firms. So innovations are an important factor in increasing the level of exports of many manufacturing firms.

Atuahere-Gima (1996); Subramanian & Nilakanta (1996); Han et al. (1998); Li & Atuagene-Gima (2001) have come to the conclusion that product innovations are important in enhancing firm performance. Also, Hernandez-Espallardo & Delgado-Ballester (2009); Ar & Baki (2011) have achieved similar results in terms of the relationship between firm performance and product innovation have achieved similar results in terms of the relationship between firm performance and product innovation. The performance of the firm, in particular, the performance of the organisation increases as a result of product innovations. In this line are also the results of Rosli & Sidek (2013); Bayus et al. (2003); Morone & Testa (2008); Krasniqi & Desai (2016); Reçica et al. (2019).

Figure 1

Research model



Source: Self estimation.

Geroski et al. (1993) conclude that product innovation has positive effects on profit margins. Meanwhile, Tankosic and Vapa (2017) claim that product innovation depends on firms' intangible sources. Karbowski and Prokop (2020) consumers are an important source of product innovations. Customer demands, needs and tastes are the starting point of product innovations in an SME. Whereas Lukas and Ferrell (2000) claim that consumer orientation in the market is a source of development of innovations that have been discontinued before. Bozic (2007) emphasise that the higher the intensity of customer orientation, the higher will be the intensity of product innovation development.

Another point of view on product innovations has been given by this author, who emphasises that the capacity to develop product innovations depends on the market share of the firm. The higher this portion is, the greater the opportunities for product innovation are. Prasnikar et al. (2008) claim that in order to be successful in product innovations, firms need to develop technological, marketing and complementary competencies. Whereas Vega-Jurado et al. (2008) emphasise that technological competencies are the main determinants of product innovation development. These determinants are dependent on the industrial sector and the level of innovation of the new product.

According to Schubert (2009) the success of product innovations can be defined as the increase in sales of these products in the market. Meanwhile, Kleinschmidt and Cooper (1988) claim that the success of product innovation depends on its ability to be sold in the

international market. These authors, through their work, affirmed that there is a positive relationship between product innovation and firm performance and its growth. Moreira and Silva (2013) claim that market orientation impacts product innovations.

However, there are studies that have found evidence that product innovations do not have a positive impact on SME growth. The study of Rexhepi-Mahmutaj & Krasniqi (2020) provides empirical evidence that product innovations have a negative relationship with the firm's sales growth and this relationship is not significant. Whereas, the study of Halpern & Murakozy (2012) proves that product innovations negatively affect the productivity of the firm. The discussions so far guide us in defining the first hypothesis of this study:

H1: Product innovations positively affect the growth of manufacturing SME sales

Levitt (1960) has studied the impact of innovation types on the profit and sales of SMEs. According to this author, marketing methods are very important in securing profit from innovations of products, organisational, marketing etc. Schmidt & Rammer (2007) conclude that product innovations influence SME decisions to undertake marketing innovations, etc. According to Radas (2003), there are significant differences between manufacturing and service firms in terms of innovation development. In service firms, product innovations are more important than other types of innovation, while in manufacturing firms, all types of innovations are equally important.

Krasniqi & Dula (2016) claim that firm size is not important for all types of innovations. Firm size is very important for product innovations, while it is not important for marketing and organisational innovations. Different types of innovations have a different impact on the growth of sales or even the growth of SME exports. Therefore according to Cieslik & Michalek (2017), of all the types of innovations, product innovations have the greatest impact on increasing exports and sales than marketing and organisational innovations. Similar results have been achieved by Cassiman & Ros (2007).

In their research, Slogar & Bezic (2019) have concluded that product and process innovations enable increased sales, while other types of innovation do not enable increased sales. Meanwhile, Krasniqi & Kutllovci (2008) conclude that market pressure and consumer identity are the main elements that impact all types of innovations in firms. Based on these elements, firms are determined in the development of various innovations, which then affect the increase of business capacity.

Muller et al. (2018) also emphasise that every new or modified product and every innovation in SME marketing affects the growth of sales or even exports of firms. While Liao & Rice (2010); Rhee et al. (2010); Naidoo (2010); Ajayi & Morton (2015), in their research, emphasised the importance of marketing innovations in increasing SME sales and firm performance. Without new and innovative marketing strategies, methods and techniques, there can be no increase in sales and improvement in business performance. Based on these discussions, the following hypothesis can be formulated:

H2: Marketing innovations have a positive impact on increasing sales of manufacturing SMEs

Innovative changes in SMEs are important for business and employee orientation. Therefore these innovations represent importance and value in the literature in the field of innovation. It should be noted that organisational innovations have not been adequately addressed so far. Researchers have been more curious about other types of innovation than organisational innovations. Among the authors who have contributed to the better recognition of organisational innovations can be mentioned McGee et al. (1995); Sanidas (2005); Rosenbusch et al. (2011); Evangelista & Vezzani (2012); Zaied Ben et al. (2015). These authors emphasised that organisational innovations have an impact on the business performance of the firm.

Therefore, based on these evidences, the following hypotheses can be formulated.

H3: Organisational innovations have a positive impact on increasing sales of manufacturing SMEs

H4: The level of education of employees has a positive impact on increasing sales of manufacturing SMEs;

H5: The number of employees or the size of the firm affects the growth of sales of manufacturing SMEs

4. Research Methodology

Primary data were collected through a research questionnaire. 100 manufacturing SMEs were interviewed in 7 regions of Kosovo: Prishtina, Prizren, Peja, Gjilan, Mitrovica, Gjakova and Ferizaj. The interview lasted about 50 minutes and general managers or sales and marketing managers were interviewed by the authors of this paper. Kosovo has a limited number of manufacturing SMEs, so the sample is about 80% of manufacturing SMEs. These SMEs sell their products inside and outside Kosovo. So they export to EU countries, regional countries and Turkey. The logistic regression model was used to achieve the intended results. The data obtained were processed through the SPSS Program.

Table 2

Variables and their categories

Dependent variable	*Variables categories*
Sales growth	1 – Yes; 0 – No
Independent variables	*Variables categories*
Product/Process innovation	1 – During the last three years SME has created new products/processes, or made a substantial one modification in products/processes; 0 – Otherwise
Marketing innovation	1 – During the last three years SME has introduced a new marketing method for its products; 0 – Otherwise
Organisational innovation	1 – Over the last three years, the organisation has changed its organisational structure; 0 – Otherwise
Control variables	*Variables categories*
Education level	1 – Employee has university degree; 0 – otherwise
Size of SME	Number of employees

Source: Self estimation.

The dependent variable has two categories. The SMEs, and specifically their managers, were asked if their sales have increased over a period of 3 years. This period is 2017-2020. Data were collected during the period January 2021 – March 2021. Whereas the independent variables consist of Marketing innovation, Product/Process Innovation and Organisational innovation. In addition to the dependent variable and the independent variables, there are also control variables. The level of employee education and the number of employees of these SMEs will serve as control variables to analyse their impact on sales growth, in addition to the variables related to the types of innovations.

The following table presents the descriptive statistics of the variables. As can be understood from the table, the number of analysed SME employees varies from 5 employees to 100 employees. The level of education of employees consists of 2 categories. Also, other variables consist of 2 categories: 0 and 1.

Table 3

Descriptive statistics

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Product/Process innovation	200	0	1	0.10	0.30
Marketing innovation	200	0	1	0.20	0.34
Organizational innovation	200	0	1	0.12	0.41
Education level	200	0	1	0.41	0.49
Size of SME	200	5	100	10.45	8.04

Source: own calculations.

The table below presents the logical estimation for SME sales growth. Independent variables show how much the types of innovations influence the sales growth of manufacturing SMEs.

Table 4

Logic model estimation

Variables	B	SE.	Wald	df	Sig.	Exp(B)
Product/Process innovation	0.952	0.621	1.452	1	0.056**	1.042
Marketing innovation	1.235	0.709	5.238	1	0.008***	1.756
Organizational innovation	0.756	0.721	1.527	1	0.743	0.852
Education level	0.826	0.285	3.511	1	0.006***	2.021
Size of SME	-0.059	0.357	4.257	1	0.179	1.127
Constant	6.486	2.154	8.541	1	0.009	0.003

*** Significant at 1% level, ** significant at 5%, * significant at 10% level
Source: own calculations.

The first variable or product innovations are significant and are positively related to the increase in sales of manufacturing SMEs. So the first hypothesis can be proved to be correct. Similar results have been achieved by Jusufi et al. (2020). According to them, product innovations have a positive impact on increasing sales of manufacturing SMEs, especially those that are exporters. Bozic (2011), Ar & Baki (2011), Reçica et al. (2019); have achieved similar results. Meanwhile, opposite results have been achieved by Rexhepi-Mahmutaj & Krasniqi (2020). The results of these authors show that product innovations have a negative impact on increasing sales of manufacturing SMEs. Also, these results do not represent significance in their econometric model.

In terms of marketing innovation, this type of innovation is significant in our model and has a positive relationship with the dependent variable, which represents the increase in SME sales. So the more productive SMEs realise marketing innovations, the greater the likelihood of increased sales of these SMEs. So even the second hypothesis of our paper can be proved to be correct. Liao & Rice (2010); Rhee et al. (2010); Naidoo (2010); Moses Ajayi and Morton (2015) have achieved similar results. Marketing innovations are very important for the survival of SMEs, especially the productive ones. Although the literature so far has not paid special attention to this type of innovation, they are of particular importance for the survival, growth and orientation of all SMEs.

Organisational innovation does not represent a significance and does not have a positive relationship with the increase of sales of manufacturing SMEs. Sanidas (2005) has achieved other results where according to him, this type of innovation has an essential contribution to economic growth and to the growth of firms in particular. Also, Evangelista & Vezzani (2012); Zaied Ben et al. (2015), in their research, has achieved results that this type of innovation has an impact on the growth of the firm. McGee et al. (1995); Rosenbusch et al. (2011) have achieved results similar to the results of our research, where according to them, organisational innovations have no impact on increasing sales and performance of firms.

The number of employees or size of SME is not significant in our model, while it has a positive relationship with the dependent variable. Lee (2009) has achieved similar results. According to him, the number of employees or the size of the firm positively affects the business performance or even the profitability of the firm. Similar results have been achieved in the research of Ibhagui & Olokoyo (2018). The level of education of employees is a variable that has a positive relationship with the dependent variable and is also significant. Such results have also been achieved by Marimuthu et al. (2009); Akinboade (2015); Jusufi & Ramaj (2020). Based on this evidence, the fourth hypothesis can be proved to be correct. The following table shows two models. The first model includes independent variables which relate to the types of innovations. In this model, product innovations and marketing innovations are significant.

Table 5

Various specifications of the Logit Model

Logit estimations	Model (1)		Model (2)	
	B	Sig	B	Sig
Product/Process innovation	0.416	0.090*	0.830	0.023**
Marketing innovation	0.645	0.004***	0.580	0.090*
Organizational innovation	0.402	0.729	-0.092	0.673
Education level	-	-	0.381	0.002**
Size of SME	-	-	0.246	0.145
Model fit				
n	200	-	200	-
−2 log-likelihood	344.27	-	286.53	-
$\chi 2$	1.194	-	16.153	-
Nagelkerke R2	0.029	-	0.038	-
Overall percentage of predictions				
correct	58.2	-	51.9	-

*** Significant at 1% level; ** significant at 5%; * significant at 10% level.
Source: own calculations.

The likelihood of increasing sales is 41.6% and 64.5%. So these figures represent the likelihood of increased sales of manufacturing SMEs from Product innovations and Marketing innovations. In the second model, in addition to the independent variables, the control variables are also included. In the second model, the same variables are significant, i.e. product innovations and marketing innovations. Of the control variables, only the employee education level variable is significant. The likelihood of increasing the sales of manufacturing SMEs from product innovations is 83%, while from marketing innovations, is 58%. The likelihood of increasing sales of manufacturing SMEs is 38.1% as a result of the level of education of employees.

Conclusion

This research presents the impact of innovations types on increasing sales of manufacturing SMEs. The hypothesis validation is done through data processing in the logic model. The results obtained have helped to validate as hypotheses the hypotheses set out in the literature review section. The first type of innovation, product/process innovations represents a significance in our model. It is also in a positive relationship with the dependent variable that represents the increase in sales of productive SMEs. Despite the fact that the manufacturing sector is not very developed in Kosovo, manufacturing SMEs have developed new products which have placed them in the local and international markets. The development of new products has a great impact on increasing the sales of manufacturing SMEs.

In terms of marketing innovations, this type of innovation is also vital for increasing the sales of manufacturing SMEs. New marketing techniques and methods, effective marketing strategies have a tremendous impact on the business performance of manufacturing SMEs. The cost of innovation is quite high, even the preliminary plan for innovation development requires detailed market research, detailed analysis of competing SMEs, high-quality human resources, etc. Therefore SMEs, especially those from the manufacturing sector, must do their utmost to develop both product and marketing innovations. The results of empirical research and most of the literature sources suggest that business performance is greatly influenced by the innovations that SMEs develop.

Kosovo institutions can use the findings and evidence of this research, drafting their policies for the development and support of manufacturing SMEs in accordance with the evidence of this paper. Promoting the innovation activities of Kosovar entrepreneurs is vital to Kosovo institutions. Therefore, government agencies and other relevant institutions should constantly work with Kosovar entrepreneurs in promoting innovative activities, especially those of product and marketing. The third type of innovation, or organisational innovation, does not represent significance in our model. Most of Kosovo's manufacturing SMEs are firms that have a simple organisational structure, have a small number of employees and small managerial staff. Therefore any innovation of organisational nature will not greatly affect the business performance of these SMEs. Thus, for Kosovo's manufacturing SMEs, marketing and product innovations are more important than organisational innovations.

In addition to the types of innovations, the increase in sales of productive SMEs is also influenced by the level of education of employees and the number of employees. These

variables, in our model we have treated as control variables. The level of education of employees is significant and is in a positive relationship with the dependent variable. In addition to product and marketing innovations, the level of employee education also has a positive impact on business performance or on increasing sales of Kosovo's manufacturing SMEs. Despite the fact that the education system in Kosovo does not offer graduates in accordance with the demands and needs of the labour market, still, the educated employee influences the business performance of these SMEs. These SMEs mostly need qualified staff from vocational schools which provide technical skills. Such schools in Kosovo are few, so the relevant institutions should open more vocational technical schools which train and train employees for manufacturing firms.

In terms of SME size or number of employees, 90% of Kosovo's productive SMEs do not have more than 100 employees. Therefore this variable does not represent significance in our model. It can therefore be concluded that the number of employees of manufacturing SMEs is not important for the business performance of these SMEs.

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