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RELATIONSHIP BETWEEN INNOVATION AND FINANCIAL PERFORMANCE IN THE GLOBAL ENVIRONMENT OF EXPORTING COMPANIES

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Abstract: *This research aimed to measure the impact of innovations (product innovation, technological innovation, marketing innovation, and process innovations) on the financial performance of exporting enterprises. It was based on return on assets (ROA), increase in return on sales, net profit, and increases in value per employee. The research was carried out based on primary data through the quantitative method. The study's participants were 150 Kosovo exporting companies selected randomly. Based on Pearson's correlation analysis, it was found that there is a weak positive linear relationship between organizational innovations and product innovation, and financial performance. Additionally, a moderate positive linear relationship exists between marketing innovations, process innovations, and financial performance. Referring to the multiple linear regression, it was revealed that innovations explain 46.7% of financial performance. Process and marketing innovation had the greatest impact on financial performance, while organizational innovation had a lesser impact. The findings of this research contribute to improving the financial performance of exporting companies in Kosovo, focusing on the type of innovation that most influences performance.*

Keywords: *Organizational Innovation; Marketing Innovation; Product Innovation; Process Innovation; Financial Performance; Exporting Companies*

INTRODUCTION

In the competitive environment, innovation is regarded as the primary indicator for value creation and a significant competitive component (Sandvik and Sandvik 2003). The influence of innovations on financial performance is considered a crucial topic in the literature, as various studies have yielded varying findings (Hult, Hurley, and Knight 2004; Hernández-Espallardo and Delgado-Ballester 2009).

The recent literature provides evidence that the financial performance of enterprises has been the dependent variable in empirical studies, with ample evidence indicating a positive relationship between innovations and financial performance (Bigliardi 2014). Several researchers have focused on examining the extent to which innovations enhance the financial performance of enterprises (Rosenbusch, Brinckmann, and Bausch 2011; Gronum, Verreynne, and Kastelle 2012), providing scientific evidence that innovations are significant determinants of companies' financial performance, with innovative companies outperforming non-innovative ones (Mansury and Love 2008; Calabrese et al. 2013). Even though many researchers have studied the impact of innovations on the financial performance of enterprises, the relationship between them continues to be a topic of discussion because the existing literature identifies not only positive

relationships but also negative and no impact (Canh et al. 2019; Bigliardi, Ferraro, et al. 2020; YuSheng and Ibrahim 2020).

In the studies of the authors Atuahene-Gima (2001), Pittaway et al. (2004), Guo et al. (2005), Li, López-Nicolás, Meroño-Cerdán (2011), Rosenbusch et al. (2011), Gronum et al. (2012), a positive correlation has been identified between innovations and financial performance (Atuahene-Gima 1996; Pittaway et al. 2004; Rosenbusch, Brinckmann, and Bausch 2011; Gronum, Verreynne, and Kastelle 2012), in the studies Meyer, Roberts (1986), McGee et al. (1995), Danneels, Kleinschmidt, (2001), Min et al. (2006), Vermeulen et al. (2006) a negative correlation has been identified (Meyer and Roberts 1986; McGee, Dowling dhe Megginson 1995; Danneels and Kleinschmidtd 2003; Min, Kalwani, and Robinson 2006; Vermeulen, De Jong and O'shaughnessy 2005), whereas Birley, Westhead (1990), Cooper, Kleinschmidt (1993), and Calantone et al. (1994), in their studies, did not identify a clear correlation (Birley and Westthead 1990; Cooper and Kleinschmidt 1993; Calantone, di Benedetto and Bhoovaraghavan 1994).

Since the relationship between innovation and financial performance is not very clear, this research aims to measure the impact of innovations (product innovation, technological innovation, marketing innovation, and process innovations) on the financial performance of exporting enterprises by was based on ROA, increase in return on sales, Net Profit and increases in value per employee. In this way, through this research, it is claimed to provide a specific overview of the impact of innovations on financial performance and fill the gap in the literature.

LITERATURE REVIEW

Innovation is widely recognized as a crucial factor in creating a competitive advantage, allowing companies to establish and maintain a leading position in the market (Helfat and Peteraf 2002; Fagerberg and Mowery 2006). Moreover, innovation can act as a substitute for competitors by introducing novel solutions and advancements (Pla-Barber and Alegre 2007).

Many researchers have studied the relationship between innovation and a firm's performance to better see changes due to the intensification of globalization when the search for innovation has expanded (Fagerberg and Mowery 2006; Fleury and Fleury 2011), where many researchers have suggested that the characteristics of internationalization may be important to more clearly understand the link between innovations and financial performance (Mahlich 2009).

To explore the correlation between innovation and financial performance, this study specifically examined four types of innovations: product innovation, technological innovation, marketing innovation, and process innovation.

Organizational innovation entails the implementation of rules or procedures in an organization's external and internal environment (OECD 2005). According to the research of Schmidt and Rammer (2007), organizational innovation as a non-technological innovation influenced the stimulation of process and product innovation, bringing better business results and positively affecting the enterprise's financial performance (Schmidt and Rammer 2007). Based on this, the Hb hypothesis was built: There is a statistically significant relationship that product innovations affect financial performance.

Product innovation refers to enhancing or introducing new goods or services, improving upon existing offerings, or introducing entirely novel ones (Duranto and Puga 2001). Studies

have long highlighted the positive influence between product innovation and a firm's financial performance (Ettlie and Reza 1992). Likewise, Alamdari and Fagan (2005) researched the relationship between these variables and identified positive relationships (Alamdari and Fagan 2007). Even the authors Bayus, Erickson, and Jacobson (2003) and Varis and Littunen (2010) in their research proved that product innovation has a positive relationship with financial performance (Bayus, Erickson, and Jacobson 2001; Varis and Littunen 2010). Based on this, the H_b hypothesis was built: There is a statistically significant relationship that product innovations affect financial performance.

Marketing innovation involves implementing changes in packaging, promotional activities, design, pricing, and product placement. Varis and Littunen (2010) found a positive correlation between marketing innovation and financial performance in their research (Varis and Littunen 2010). Walker (2005) conducted a study and found a significant impact of marketing innovation on firm performance, leading to an improved market position relative to the competition. Based on the literature, hypothesis Hc was formulated: There is a statistically significant relationship that marketing innovations affect financial performance.

Process innovation is a novel practice that aims to enhance production and transportation by implementing software techniques or equipment changes. It is focused on improving operational efficiency and effectiveness within an organization (OECD 2005). Process innovations are attributed to introducing new processes to increase efficiency or expand the market (Mwaniki and Wamiori 2018). Ar and Baki (2011) found that process innovation has a positive effect on increasing financial performance (Ar and Baki 2011). Based on the literature, hypothesis H_d was built: There is a statistically significant relationship that process innovations affect financial performance.

RESEARCH METHODOLOGY

This research utilized a quantitative approach, relying on primary data collection. The quantitative method was chosen due to its significance in addressing the research problem by generating numerical data or data that can be transformed into actionable statistics. This method enables the measurement of data, the inference of facts, and the exploration of various research models. A subset of the study included 150 Kosovo companies engaged in export activities within various markets. The selection of these companies was conducted using a random sampling method.

The structured questionnaire was utilized as a measuring instrument created using Google Forms. The processing and analysis of the collected data were conducted using SPSS. The questionnaire was formulated using a Likert frequency scale, ranging from 1 (never) to 5 (always). The questionnaire is structured into three sections. The first section includes demographic data such as gender, age, and education. The second section comprises questions about the innovation process, including product, organizational, marketing, and process innovation. Lastly, the third section consists of questions about financial performance. The methodological process of the research is illustrated in Figure 1, showcasing the various stages involved.

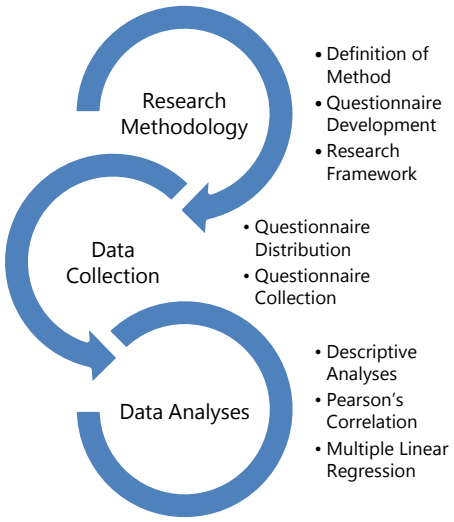


Figure 1: Flowchart of Research Methodology (Source: Author's depiction)

This research aims to achieve the following objectives and test the following hypotheses:

Objective: To measure the impact of innovations on financial performance.

- Objective a: To measure the impact of organizational innovations on financial performance.
- Objective b: To measure the impact of product innovations on financial performance.
- Objective c: To measure the impact of marketing innovations on financial performance.
- Objective d: To measure the impact of process innovations on financial performance.

Research question: How do innovations affect financial performance?

- Research question a: How do organizational innovations affect financial performance?
- Research question b: How do product innovations affect financial performance?
- Research question c: How do marketing innovations affect financial performance?
- Research question d: How do process innovations affect financial performance?

H: There is a statistically significant relationship that innovations affect financial performance.

- H_a: There is a statistically significant relationship that organizational innovations affect financial performance.
- H_b: There is a statistically significant relationship that product innovations affect financial performance.
- H_c: There is a statistically significant relationship that marketing innovations affect financial performance.
- H_d: There is a statistically significant relationship that process innovations affect financial performance.

Definition of variables: Financial performance serves as the dependent variable in this study, whereas innovation is considered the independent variable. The logical connection between the independent and dependent variables can be found in the framework below.

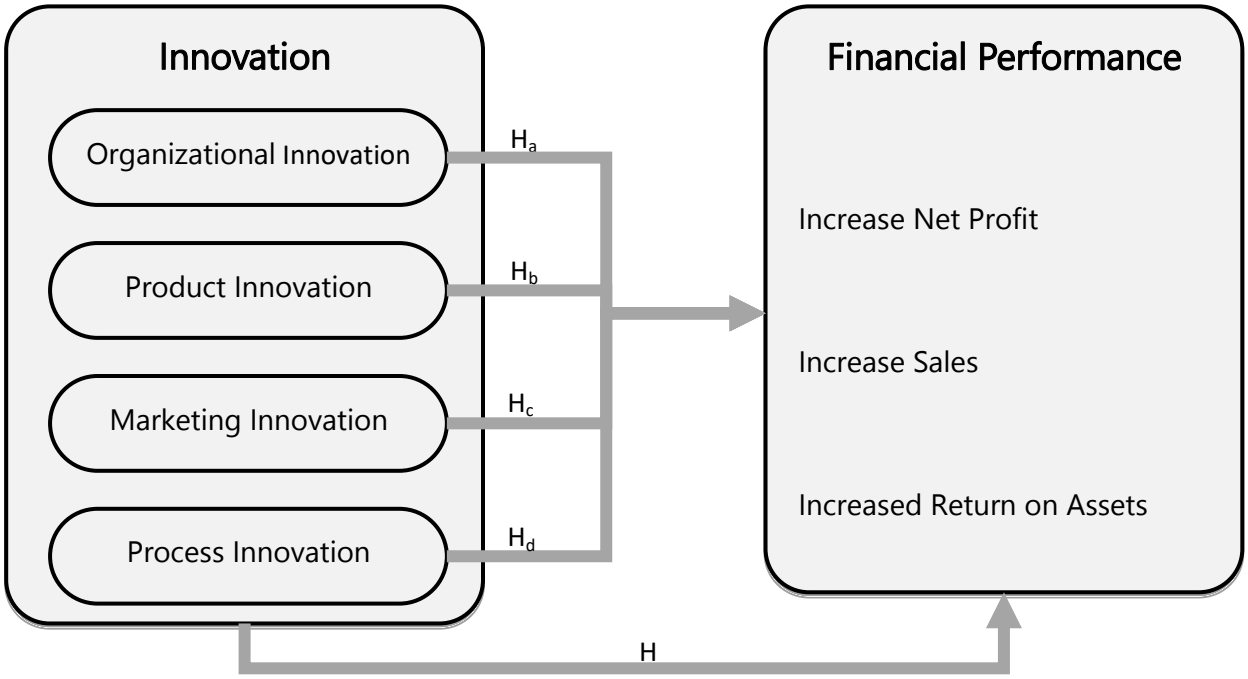


Figure 2: Framework of Research (Source: Author's depiction)

The results were presented using tabular and graphical forms, which include descriptive analysis, percentage frequency, and absolute frequency. The reliability of the measuring instrument was assessed using the Cronbach Alpha coefficient, and the data distribution was tested using the Kolmogorov-Smirnov normality test. Pearson's correlation was employed to validate the hypotheses and measure the relationship between independent and dependent variables. Multiple linear regression was utilized to assess the impact of innovations (technological, product, marketing, process innovation) on financial performance.

RESULTS AND DISCUSSION

The reliability of the measuring instrument is considered very important as it serves as the basis for all the results obtained, providing scientific certainty when interpreting and discussing the findings. The measuring instrument's reliability is determined using the Cronbach Alpha coefficient, whereby a total value of $\alpha=0.901$ indicates that the measuring instrument exhibits internal reliability.

Table 1: Reliability of the Instrument (Source: Author's calculations)

Variables	Cronbach Alpha
Organizational Innovation	0.913
Product Innovation	0.903
Marketing Innovation	0.900
Processes Innovation	0.869
Financial Performance	0.921
Total	**0.901**

Participants in the research were 150 managers of exporting companies from Kosovo, where 36.66% (n=55) were women and 63.33% (n=95) were men. In terms of age distribution, 6.66% (n=10) were aged 18-27, 14.66% (n=22) aged 28-37, 52% (n=78) aged 38-47, 20% (n=30) aged 48-57 years and 6.66% (n=10) aged over 50 years. The educational distribution of the respondents was higher at the master's level, where 53.3% (n=83) had completed the master's level, 43.3% (n=65) had a bachelor's education, and 1.33% (n=2) had secondary education.

Table 2: Respondent Characteristics; Note: N=150 (Source: Author's calculations)

		N	Percent (%)
Gender	Female	55	36.66
	Male	95	63.33
Age	18 - 27 years old	10	6.66
	28-37 years old	22	14.66
	38-47 years old	78	52
	48-57 years old	30	20
	Over 58 years old	10	6.66
Level of Education	High School	2	1.33
	Bachelor	65	43.33
	Master	83	55.33

According to the descriptive analysis, the average of Organizational Innovations is x=3.94 and SD=.532, which means that above the average level managers have agreed that they improve the processes and procedures of activities, which improve the management of the supply chain, the information and communication system within and outside the company as well as improve the organization and change responsibilities and tasks in order to improve teamwork. The mean of product innovations is x=4.03 with a standard deviation of SD=.596, indicating that the quality of products/services is increased above the average level. In this regard, improvements are made in the components and materials of existing products/services; innovations are developed to enhance the use and customer satisfaction; new products/services with distinct technical specifications and functionalities from the current ones are developed, and new products/services with entirely different components and materials are introduced. When referring to the average of innovations in marketing, it can be observed that the average value for this category is x=4.06, with a standard deviation of SD=.537.

This indicates that Kosovo companies that export goods can enhance their marketing efforts above the average level. Specifically, they focus on improving the design of current products in all aspects, enhancing distribution channels without altering logistics, refining processes related to product delivery, and adopting effective product/service promotion techniques to promote their products effectively. The last category within innovations is process innovation, where the average is x=4.17 and SD=.561, where this average also shows an above-average level; exporting companies eliminate activities that do not add value to production processes, reduce costs variable in production processes, techniques, machinery, and software, increase production quality in production processes, techniques, machinery, and software as well as reduce variable costs and increase delivery speed. Whereas the dependent variable, which is financial performance, has an average of x=4.20 and SD=.448, which means that above the average level, managers have agreed that companies have increased net profit, increased sales return, increased return on assets, increased value for employees and increasing the organization's return on assets (ROA). According to the statistics, organizational innovation received the lowest score among all the other categories.

Table 3: Descriptive Statistics (Source: Author's calculations)

	N	Minimum	Maximum	Mean	Std. Deviation
Organizational Innovation	150	3.00	4.75	3.9417	0.53283
Product Innovation	150	2.75	5.00	4.0333	0.59618
Marketing Innovation	150	2.75	4.75	4.0667	0.53773
Processes Innovation	150	2.50	5.00	4.1750	0.56145
Financial Performance	150	3.20	5.00	4.2000	0.44871

According to the results presented in the figure below, about 70% of the managers of exporting enterprises have proved that they have an orientation in innovations, specifically in product, technological, marketing, and process innovations. As for financial performance, managers have stated that they have good financial performance, which means increased net profit, increased sales return, increased return on assets, increased value for employees, and increased return on organizational assets (ROA).

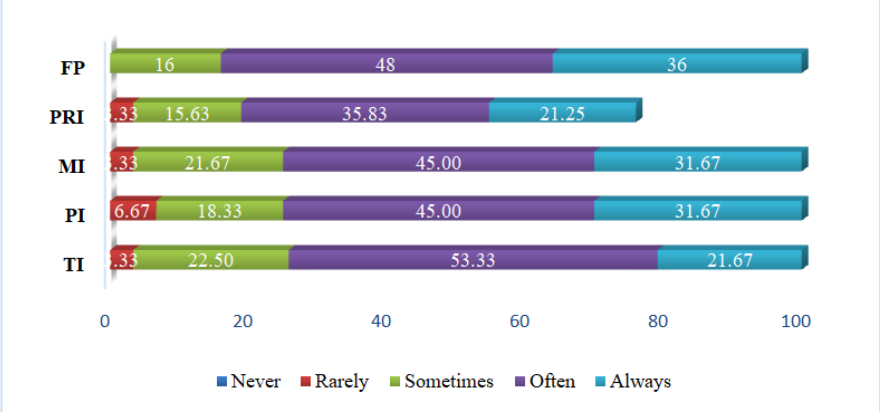


Figure 3: Level of Agreement for Innovation and Financial Performance (Source: Author's calculations)

A normality test, specifically the Kolmogorov-Smirnov test, was conducted to determine the distribution of the data. As a result yielded a p-value greater than 0.05, indicating a normal distribution, the condition is met for utilizing Pearson's correlation and multiple linear regression.

Pearson's correlation was used to test the relationship between innovations and financial performance as a dependent variable. The correlation coefficient between organizational innovations and financial performance is r=.309, which indicates a weak positive relationship between the variables. The value of the coefficient r=.383 also shows a weak relationship between product innovations and financial performance. The correlation coefficient between marketing, process, and financial performance innovations indicates a moderate positive relationship. The significance value, which is less than 0.01, confirms the reliability of the results.

Table 4: Correlation Matrix (Source: Author's calculations)

	TI	PI	MI	PRI	FP
TI	1				
PI	.501**	1			
MI	.350**	.215**	1		
PRI	0.034	.471**	.260**	1	
FP	.309**	.383**	.559**	.573**	1

**. Correlation is significant at the 0.01 level (2-tailed).

According to Table 5, the R-squared value indicates the percentage of financial performance explained by innovations, specifically product, technological, process, and marketing innovation. It is observed that innovations influence 46.7% of the financial performance of exporting enterprises, while the remaining portion is dependent on variables not included in the model. The Durbin-Watson test also suggests that the model does not exhibit autocorrelation issues.

Table 5: Model Summary b (Source: Author's calculations)

					Change Statistics					Durbin-Watson
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	
1	.683[a]	0.467	0.452	0.33220	0.467	31.712	4	145	0.000	1.589

a. Predictors: (constant) processes innovation, organizational innovation, marketing innovation, product innovation
b. Dependent Variable: financial performance

According to ANOVA, referring to the value F=31.712, df (4, 145) and the significance p=0.000 shows that the model is significant. From the regression table, if the values of technological, product, marketing, and process innovations will be 0, the financial performance will be 0.991 units. The financial performance will increase with each innovation, except for the product innovation excluded from the model due to the increased significance value.

Model:

$$y = \beta_0 + \beta_1 * x_1 + \beta_2 * x_2 + \beta_3 * x_3 + \varepsilon$$

$$y_{(FP)} = .991 + 0.176 * x_{1\,(TI)} + 0.215 * x_{2\,(MI)} + 0.405 * x_{2\,(PRI)}$$

Table 6: Multiple Linear Regression (Source: Author's calculations)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.991	0.298		3.327	0.001
	TI	0.176	0.065	0.209	2.695	0.008
	PI	-0.012	0.062	-0.017	-0.199	0.842
	MI	0.215	0.056	0.258	3.812	0.000
	PRI	0.405	0.059	0.506	6.816	0.000

a. Dependent Variable: Financial Performance

According to the multiple linear regression, the research hypothesis has been proven since there is a statistically significant correlation that innovations affect financial performance, where the biggest influence was the innovation of the process and then that of marketing. Due to p>0.05, product innovation is excluded from the model.

CONCLUSION

Based on the research findings, organizational innovation had the lowest average of the other types of innovations. However, the result shows that above the average level, the exporting enterprises are oriented to improving processes, procedures, and activities, to improving supply management, and the system of communication inside and outside the company. Also, they are oriented to the improvement of the organization and the change of responsibilities in the function of the improvement. As for product innovation, exporting companies in Kosovo are oriented towards increasing the quality of products or services, developing innovations for products or services, and developing products or services with technical specifications and functionalities different from the current ones.

As for marketing innovations, it is considered among the innovations with the greatest application in exporting companies in Kosovo, along with process innovation. These companies are highly oriented to improving product designs, distribution, and delivery channels, improving product or service promotion techniques, eliminating activities that have no added value in production processes, reducing variable costs, increasing production quality, and increasing delivery speed.

Pearson's correlation analysis shows a weak positive linear relationship between organizational innovations, product innovation, and financial performance. A moderate positive linear relationship exists between marketing innovations, process innovations, and financial performance. When referring to the multiple linear regression, it was found that 46.7% of the

financial performance is explained by innovations, with the greatest impact observed from process and marketing innovation, followed by organizational innovation. Product innovation was removed from the model due to its increased significance value.

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Statement on the Welfare of Animals:
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Informed Consent:
Informed consent was obtained from all individual participants included in the study.

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