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## **GOVERNMENT INSTITUTIONAL SUPPORT FOR FOSTERING SME'S INNOVATION IN WESTERN BALKAN COUNTRIES**

### **Abstract:**

In 21<sup>st</sup> Century, the dynamic changes in technology and customer preferences on the market, influences a need for innovation and company orientation to design and implement new products, services or process. Compared to the large enterprises, flexibility to market changes is a certain advantage for small and medium enterprises (SME's). In general, SME's are able to implement innovations for a shorter period of time and are main drivers of sustainable growth, job creation and innovation, creation of new bussiness and products.

As a critical parts of innovation process in different countries, SME's should take central place in government strategies for increasing innovation. Despite their importance, SME's and entrepreneurship support is not yet fully embedded in innovation policy, and the requirements for effective policies in this area are still not enough understood.

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The Western Balkans countries, including Republic North Macedonia, recognised the importance of innovation policy and strategy for the development of SME's. In this paper, a theoretical and comparative analyses of the policies and infrastructure for fostering innovation has been implemented, with accent on the government institutional support for innovative SME's as sub-dimension for creating and implementing the innovation policy in Western Balkans countries.

**Key words:** innovation; SME's; innovation policy; Western Balkan countries

**JEL classification:** O31, O38

## **Introduction**

The growth, development and company profit mainly depends on innovation and introduction of new products on the market. The technological progress, and the dynamic changes in consumers demand, relativize the position of the existing products on the market. Accordingly, the need for development of new products, the refreshment through improvements by modifying of characteristics of the existing ones and finding new ways for their application is becoming significant.

Innovation is one of the most fundamental processes underpinning economic growth. As most important aspect of successful entrepreneurship, innovations become radically different in the 21st Century. The innovating SME's are considered as agents of change in the economy, introducing new products and services and more efficient ways.

Innovation helps companies to boost their growth, and governments need to promote innovation either in the form of financial or non-financial support for the business. The innovation policy should also capture technological and other forms of non-technological innovation, while implementing concrete policy measures to build a country innovation supporting system. In general, the government institutional support for innovative SME's could be very useful in building the financial as well as non-financial infrastructure to support innovation on SME's in all stages in the business cycle.

From year 2017, SME's made up 99, 7% of all enterprises in the Western Balkans countries (WBT) and Turkey.<sup>1</sup> According to EU Innovation

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<sup>1</sup> *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe* (pocketbook), 2019, p. 58

Scoreboard, in 2018, North Macedonia, Serbia and Turkey are in the category of modest or moderate innovators, which reflects an overall increase in the economies capacity in their policy frameworks for further innovations. Also, the WBT countries have substantially improved the innovation in the past decade and it continues to lag significantly behind European peers.<sup>2</sup>

Innovations are specific tool for entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. They need to search the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. In general, they need to know and to apply the principles of successful innovation.<sup>3</sup>

The creation of new business ventures and innovations in SME's are critical parts of innovation process, and should take a central place in government strategies to promote innovation. One of the most important aspects for improvement business innovation activities is the government institutional support, as a non-financial infrastructure for innovation in SME's across all stages in the business cycle. Despite their importance, however, SME's and entrepreneurship support is not yet fully embedded in innovation policy, and the requirements for effective policies in this area are still not well enough understood. The public institutional infrastructure which support SME's innovative activities has expanded in the Western Balkan region, but there could be also other forms of further development.<sup>4</sup>

## **1. INOVATION, ENTREPRENEURSHIP AND INNOVATION POLICY**

The concepts of entrepreneurship and innovation are mutually inclusive. Entrepreneurs should pro-actively pursue innovation to survive in circumstances of constant change.<sup>5</sup>

Innovation is the ability to apply creative solutions to those problems and opportunities in order to enhance people's lives or to enrich society. It is the act that endows resources with a new capacity to create wealth.<sup>6</sup> As a

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<sup>2</sup> *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe, 2019, p.352*

<sup>3</sup> Drucker Peter, *Innovation and entrepreneurship*, California, 1984, p. 18-30

<sup>4</sup> *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe, 2019, p.352*

<sup>5</sup> Knošková, L., *Innovation Processes and Entrepreneurial Culture for Radical Innovations*, Amfiteatru Economic, 17(38),2015, p. 344

<sup>6</sup> Drucker Peter, *Innovation and entrepreneurship*,p.18-30

specific instrument of entrepreneurship, innovation are used to take advantage in process of creating a new business or service.

Entrepreneurship is the driver of every innovation, which means that the change of products, services and processes comes from individuals or within their companies. At the core of innovation is the ability to identify, find assets, and develop the company by creating new value for customers.<sup>7</sup>

As responsible for their businesses, entrepreneurs need to find resources for innovation and to implement them successfully. In practice, many aspects could be used for easier understanding of innovation, as new products, services or new production techniques.

New product is one of the most common notions of innovation. It is about creating a new product that can be part of an existing technology or made of a new type of technology. Also, the new product, although resembling the original one, may offer a new way of use. Products are not only physical instruments for achieving a specific purpose, they can also play role in meeting emotional needs. Development and introduction of new products, by itself, is the most responsible, complex and most effective aspect of the product strategy. When it comes to introducing new products on the market, companies should determine the activities that need to be undertaken for successful implementation of this strategy. In this sense, there are several guidelines for determining the basic activities for drafting the strategic plan when introducing new products on the market, as follows:<sup>8</sup>

- identification of specific products, production lines and mix of production lines
- detection of products that meets same need on the market as well as their users
- forming compositions of multiple products or production lines that meet similar needs, but also have a similar marketing mix
- revision of the existing strategic scheme in order to determine whether it offers operational or strategic advantages
- establishment of an efficient system for managing the new product development process and application of the best analytical instruments and concepts.

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<sup>7</sup> Џон Бесан, Џо Тид, *Иновација и претприемништво*, превод на македонски, Арс Ламина, Скопје, 2012, стр. 10-15

<sup>8</sup> Петковска Мирчевска Татјана, *Менаџментот и маркетинг истражувањето на нови производи*, Скопје, 2001. pp. 130-135

The new product development process implies achievement of the previously defined goals, followed by undertaking strategic planning activities and defining goals and procedure for taking a product from idea to commercialization. Strategic planning is a process that involves taking appropriate activities:<sup>9</sup> *situational analysis, mission and objectives development, determination of activities, strategic analysis, selection of activities, goals and strategy and preparation of the strategic plan*, as a base for the new product development process. Good preparation of the strategic plan greatly determines the success of the new product development process, because it is a complex and especially risky process. New services are regarded as the work that is offered to undertake some kind of task or solve a particular problem. Services are open to opportunities for new ideas and innovations just like physical products. One of the reasons because service innovations do not attract so much attention is that in the public opinion they are less tangible than the physical product.

New production techniques means innovation in the way the product is manufactured. Like the product, this can be established by developing existing technologies or adopting a new technological approach. New manufacturing techniques provide a solid foundation for success if it can be achieved and offered a new kind of consumer benefits.

Despite the aspect of innovation, the process is particularly complex in all stages of implementation. It is main reason that innovations requires significant and appropriate public policy support. Policy framework for innovation looks at the overall strategic approach of innovation policy and its implementation, and how SME's are covered by this framework. The governments have to produce a set of policy recommendations, adapted to the current environment and based on sound analysis, that propose how governments and their partners can support innovation in new and more effective ways.<sup>10</sup>

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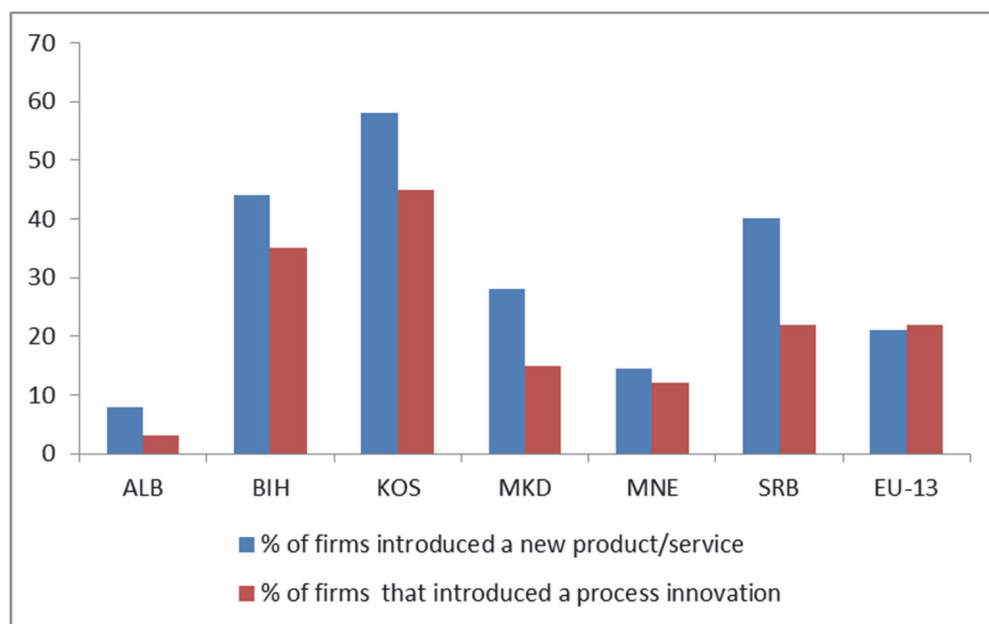
<sup>9</sup> Ibidem

<sup>10</sup> *OECD Studies on SMEs and Entrepreneurship SMEs, Entrepreneurship and innovation*, OECD 2010, p.15

## 2. GOVERNMENT INSTITUTIONAL SUPPORT AS DIMENSION OF SME'S INNOVATION POLICY – A COMPARATIVE ANALYZE OF WESTERN BALKAN (WB) COUNTRIES

The quality of institutions, rule of law, availability of a skilled labor force and regulations are identified as greater constraints to doing business by innovative firms than those that do not engage in product innovation. In WB countries, the innovation policy framework tend to be vital for putting into place long term economic goals and strategic planning, while outlining policy measures to build innovation supporting system. One of the sub-dimensions as a pillar for the innovation policy is the Government institutional support services for innovative SMEs, which reviews the physical non-financial infrastructure to support innovation in SMEs across all stages of the business cycle.<sup>11</sup>

**Figure 1.** Share of innovating firms in WB region (2016)

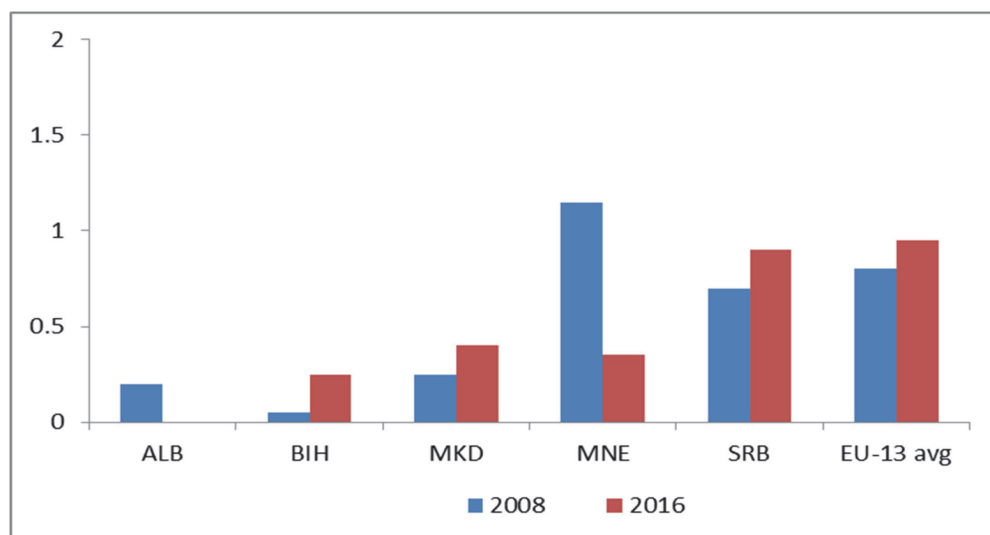


Source: *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe*, 2019 p.355

<sup>11</sup> Other sub-dimensions are: the policy framework for innovation, Government financial support services for innovative SMEs and SME and research institution collaboration and technology transfer (*SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe*, 2019 p. 349-350)

By analyzing key statistic data for SME's introducing innovations in Western Balkans (Figure 1), it could be noticed that the percentage of firms which introduced new products and services or a process of innovation is higher in Bosnia and Herzegovina, Kosovo, and Serbia. In analyzing the R&D expenditure as a share in GDP (Figure 2), suggest that the low levels of R&D spending that the innovations are often imitations involving adopting existing products and services from abroad.

**Figure 2.** R&D expenditure as a share of GDP (2008 and 2016)



Source: *SME Policy Index, Western Balkans and Turkey 2019, Assessing the implementation of the small business act for Europe*, 2019 p.354

The following is a comparative analyze of government institutional support services for innovative SMEs in the Western Balkan countries, which provides insights into the importance of this dimension in creating innovation as a basis for increasing productivity and economic development in the region. This institutional support is mainly intended for support and emergency of start-ups through the creation of incubators and accelerators, while for mature companies in traditional industries, the support relates to technology extension services. Since Western Balkan countries do not have a systematic approach to technology extension services, the main focus of the analysis is on government institutional support services through business accelerators and incubators, design to support the emergence of start-up companies and accelerate their development through mentoring and connection to financial sources.<sup>12</sup>

<sup>12</sup> *Competitiveness in SEE-a policy outlook 2018*, OECD, 2018, p. 368

In **Albania**, the government institutional support services for innovative SMEs shows that there are not public incubator support programs. Recently, the Innovation Hub in Tirana provided some support for young entrepreneurs. Despite the lack of public funding to support innovation infrastructure, some donor funded incubator and accelerator program exist, like: Korca Incubator Center Oficina Accelerator Program, PROTIK, the Albanian Innovation Accelerator, and the virtual business incubator Marin Barleti. Also, some existing programmes are ineffective and put unnecessary administrative burdens on companies, explaining the generally low interest in types of support.<sup>13</sup>

In **Serbia**, government institutional support services for innovative SMEs is based on the existence of many incubators, but there is no coherent government program for their support. Some financing is available through the Serbian Development Agency and through the Ministry of Education, Science and Technological Development, but these program operate with low budgets and there has been no evaluation of their effectiveness. However, the government announced the establishment of regional innovation centers in 2018, and has allocated about EUR 2 million for this purpose. Each individual center can apply, through an open call for proposals, for support of up to 400 000 EUR<sup>14</sup>.

The government institutional support services for innovative SMEs in **Montenegro** has two business incubators in Bar and Berane, but their focus is not on innovative enterprises. In 2016, the Tehnopolis innovation center was opened in Nikšić, as the first of a four-institution network that will act as Montenegro's science and technology park. At the moment it operates as a business incubator and the Ministry of Science provides Tehnopolis's operational funds and an additional EUR 1 million was allocated in 2018 to buy specialist equipment.

In **Bosnia and Herzegovina**, the Innovation Centre in Banja Luka is the oldest initiative of this type, which now also has other four functional incubators, namely the Entrepreneurship Centre Banja Luka, Innovation Centre East Sarajevo and business incubators in Prijedor and Trebinje. There are also ten active incubators which are directly supported by the government. Unfortunately, a number of incubators are closing in the past two years, while some have stopped functioning. In 2017, a new project was launched – Developing Accelerators to Provide Better Access to Innovation Finance for

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<sup>13</sup> SME Policy Index, Western Balkans and Turkey 2019 ,Assessing the implementation of the small business act for Europe, 2019, pp.507-510

<sup>14</sup> Ibid, p. 860-864



SMEs – supported by the Danube Transnational Program (2014-20), which main goal is piloting an accelerator program in 2018, based on good practices of partner consortium members.<sup>15</sup>

The government institutional support in **Kosovo** is based on the existence of incubators and the leading institutions in this area are the Innovation Centre Kosovo (ICK) and Gjirafa Lab. Both of these institutions are donor-based initiatives with the ICK receiving support through Norwegian, Swedish and German donor program and EU grants, and Gjirafa Lab being a United States Agency for International Development (USAID) project. The Jakova Innovation Center was established by the Ministry of Trade and Industry (MTI) with the support of the US Embassy in Kosovo.

The 2018 budget of the Ministry of Innovation foresees an allocation of EUR 1.1 million for the establishment of regional innovation center. The ministry has signed agreements with the Municipality of Ferizaj and the University of Hasan Prishtina for the establishment of two “innovation and entrepreneurship” center in Ferizaj and Pristina respectively. These centers represent a partnership between the central and local levels on the one hand, and academia and the private sector on the other. The allocated funds will be used to equip these centers with specific labs and equipment based on the needs of start-ups and SMEs.<sup>16</sup> The Government institutional support services for innovative SMEs in **Republic North Macedonia** is one of essential tools for implementation of the new industrial policy support framework for improving the competitiveness in increasing the investments, internationalization and SME's development, especially improving the innovation for further development of the SME's. This institutional support is based on the existence of a few active incubators. One is so called YES Foundation's business incubator in Skopje which focuses on micro, small and medium-sized companies in the information and communications technology sector, supporting and offers services, training, mentoring and networking opportunities. Another is the South East European University TechPark Incubator in Tetovo, which is located on the university campus. The CEED Hub in Skopje also offers a co-working space for young entrepreneurs and provides opportunities for education and mentoring program. Finally, the Centre for Technology Transfer and Innovations has recently been established at the Faculty of Electrical Engineering in Skopje, operating as a technology transfer office, but also provides co-working space and services to start-ups.

<sup>15</sup> Ibid, p. 577-580

<sup>16</sup> Ibid, p. 648-652

The Fund for Innovation and Technological Development has launched two co-financing program for these activities. One instrument provides financing of up to EUR 500 000 and up to 75% of total project value for the accelerator program. Three accelerators were awarded funds through this instrument in October 2018. The second instrument supports technology extension services: up to EUR 500 000 is awarded to service providers; four such providers were chosen during the first call for proposals in October 2018.<sup>17</sup>

### **Conclusion:**

Governments can support innovation in SME's by fostering the business environment, helping SME's to develop and use their resources effectively, and building an effective innovation system. They can design and improve an effective and inclusive national innovation policy, based on strengthening collaborations and knowledge among enterprises, universities, government, financiers through policies such as technology extension services, industry-university collaborative research, accelerators, incubators and clusters.<sup>18</sup>

The process of design and implementation of innovation policies in Western Balkan countries is of particular importance for integrating SME's innovation in the region. In some countries, despite the significant participation of innovative firms introducing innovations, due to the low level of R&D as a percentage of GDP, points to the fact that these are mostly non-technology innovations. In terms of the government institutional service, more attention is given for increasing start-up innovation through the establishment of accelerators and incubators, despite the second aspect of government support related to the technology extended services. Also, due to the lack of public funding to support innovation infrastructure, only some foreign donor funded incubator and accelerator program exist in some of the countries in the region.

In general, the comparative analysis of the ways and approaches in implementing government institutional innovation services, shows that fostering innovation requires a comprehensive and holistic approach and applicable strategies in order to create an innovative perspective in the countries in the Western Balkan.

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<sup>17</sup> SME Policy Index, Western Balkans and Turkey 2019 „*Assessing the implementation of the small business act for Europe*„, 2019, p. 769-793

<sup>18</sup> *Promoting innovation in established SMEs*, SME Ministerial conference, Mexico, OECD, 2018, p.7

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