



Research Article

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## The Role of Innovation and Branding on Enterprise Sales Growth in Transition Countries

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### Abstract

The aim of the study is to assess the role of innovation and branding on enterprise sales growth in transition countries with Kosovo being the case study for the research. The CEO of 300 business enterprises from diverse business sector were interviewed alongside other staff such as human resource managers, sales and marketing managers, and financial managers. The study revealed that service delivery, technology, business model, branding, and age of entrepreneur were significant factors. The result of the study indicates that innovation and branding have a significantly positive effect on enterprise sales growth. The research concluded by noting that brand awareness must constantly maintained through international product advertising and engaging in promotional activities to raise awareness of the product, so as to have a competitive chance of survival in the local and international market. Technological advancement should be welcomed as it forms the foundation of the initiation of innovation in business enterprises.

**Keywords:** Innovation, transition, Kosovo, sales growth, enterprises, Branding

### 1. Introduction

Countries such as the Republic of Kosovo, Albania, North Macedonia, Bosnia and Herzegovina are among nations whose economies are in the process of transition with some of these countries transition phase in its later stage while the Republic of Kosovo economy is in the earlier phase of its transition as such, they are faced with challenges that are associated with the continues metamorphosis of the macroeconomic nature of their economy (Ukaj, Ramaj & Livoreka, 2020; Jusufi & Ukaj, 2021). Scholars such as Jusufi and Ukaj (2020) have also identified that the country's economy is still in the early stages of its transition while bearing in mind that some other countries have

completed or in the tail end of their transition phase as such its essential that entrepreneurs in Kosovo learns from the blue prints of countries that have completed its transition so as to be able to develop a business brand that is capable of competing and most importantly, Thus, creating a platform for contributing towards the growth of the nation (Jusufi & Ukaj, 2020; Gashi, 2020).

Kosovo has being plagued by slow economic growth, and underdevelopment, with Labeat (2016) noting that the country is the least developed in the region and more importantly, the country's economic growth over the years has been slow, thus not having considerable impact on GDP as the economy's growth in the country is centered on capital expenditure rather than an increase in production capacity as such the private sector should play a massive role in the country's economic recovery. It's no surprise that Kosovar citizens are towards self-sufficiency through the engagement in small to medium scale enterprises and other forms of businesses to cope with the growing unemployment rate in the country. In addition, providing a means of escape from poverty and further reducing the unemployment rate (Ukaj, 2015).

The challenge of Kosovo underdevelopment could be traced to the early nineties which marked the beginning of the collapse of the then Yugoslavia economy as a result of ethnic and political tension and the recovery of the economy at that time proved difficult (Ukaj & Bibuljica, 2019; Jusufi & Bellaqa, 2019). This is not to say that prior to that time the economy was in great condition as unemployment rate was still high (Aliu, 2014). The collapse of Kosovo's economy prompted the transition of the country's citizen into entrepreneurship.

A transition economy, also known as a post-communist economy, is an economy that is in the process of metamorphosis from a centrally planned economy to a market economy. This implies that the economy is not centrally planned and is changing into a market economy, where demand and supply, which are controlled by the market, determine the economy. Therefore, both the consumers and the suppliers are controlled by the price.

Despite the transition of the country's economy, majority of businesses within the country are faced with challenges that are associated with innovation and in particular, innovation in their brands bearing in mind that majority of businesses in the country and small to medium scale and as such do not lay much emphasis on product, service and brand innovation which could be attributed to their aim of entering into business in the first place. The aim of entering into entrepreneurship for most Kosovar's citizen is born from the need for escaping the harsh economy of the country. Therefore, the majority of this business do not integrate innovative ideas in terms of brand identity, marketing and inclusion of technological advancement which could be the reason that Scase and Goffee (1982) and McIntyre (2003) are of the opinion that majority of small to medium scale business are formed from the foundation of necessity.

Branding is essential in all categories of economies considering that it encompasses the identity of the business and what value the business intends to delivers to its customers as such branding should not be restricted to large scale businesses. A brands major attribute or value is to generate awareness to product and service through the process of creating an identity or building a reputation around their product, service, organization which could only be possible through innovation in terms of product, communication and marketing. Brand innovation forms the foundation for the development of a successful identity that will not only be capable of local competition but recognizable internationally (Sammut-bonnici, 2017).

The success of business enterprises is hinge on innovative practices which reflects the pivotal role of this concept in modern day businesses. However, countries such as Kosovo that have a transitioning economy have not adequate integrated innovation into their business which has actually hampered the growth or the growth potential of businesses within the country (Qorraj & Jusufi, 2019). Statistics shows that Kosovo has a relative high number of newly registered businesses, yet the number of such businesses that closes its operation within few years of operation. The relative high rate of business closure reflects the lack of innovation in business and even in the development of a competitive brand. For instance, majority of Kosovo business falls within the boundary of Agriculture and the statistics of exportations are low which highlights the significance of innovation

in terms of product and service delivery (Jusufi, Ukaj & Ajdarpasic, 2020; Adam & Alarifi, 2021; Sulton et al., 2022).

Yusheng and Ibrahim (2019) define innovation as the creation and integration of new ideas into business with the aim of the general improvement of the business which is a reflection of its significance in any organization. Innovation plays an active role in branding of business as it involves the creation of an identity around business that would in turn raise the profit generating capacity of the business. Brand innovation enables the introduction of new and creative ideas that would enhance the marketability and competitive edge of the business as such innovation in branding is crucial in the building of a reputation for a business enterprise as it possesses the power to generate consumers trust for product that would in turn translate into consumer loyalty. Therefore, the research questions of this paper can be summarized as follows:

1. Does innovation in service delivery have an effect on increase sales in business enterprises in Kosovo?
2. Does innovation in technology have an effect on increase sales in business enterprises in Kosovo?
3. Does innovation in business model have an effect on increase sales in business enterprises in Kosovo?
4. What is the relationship between innovation and branding in business sales growth in Kosovo?
5. Is there a relationship between the age of entrepreneur and innovation of business enterprises in Kosovo?

## 2. Review of Literature

This section reviews past literature as it pertains to the concept under discussion. The concept that would be review in light of this study includes innovation, branding, and transition economy.

### 2.1 Innovation

The concept of innovation is broad which could possibly be the reason that there are several definitions of innovation and as such the definition of innovation should suit the context of discussion. Beregheh et al. (2009) went on to define innovation as “multi- stage process whereby organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully in their marketplace” (p. 1334). The definition innovation by Beregheh et al. (2009) shows that the overall aim of innovation is for the improvement of every aspect of the business enterprises which, in turn, should yield financial returns. More so, businesses can adequately differentiate themselves in the marketplace or set themselves apart through gaining a competitive edge through an upgrade in the branding of the business that help products and services have an identity that would result in customer loyalty. According to Gogodze (2013), innovation is defined as “a system that creates and utilizes new knowledge. It is a system that strengthens the competitive position of countries and boosts economic growth”. This definition reflects the creative and transformative power of innovation, considering that its impact is capable of transforming the economy of any nation, most importantly, a nation whose economy is under transition.

The study by Hamdallah and Srouji (2022:29) has shown that innovation have a positive influence on the economies of nation with their definition of this concept as a new successful influencer that helps economies develop and sustain its level. The definition views the concept of discussion from the lens of it being a booster that carries potential of having positive influence on business that could set the platform for the development of a robust economy.

Within the last two decades several researchers had conducted studies on the impact of innovation on the growth of business with majority of these researchers attempting to showcase the

impact of innovation on the product, brand of business, processing, marketing and the organizational structure. Their research shows a positive impact of innovation on the overall performance of business enterprises (Bloom & Van Reenen, 2002; Oke, Burke & Myers, 2007; Bessler & Bittelmeier, 2008; Chetty & Stangl, 2010).

Byityai (2015) in his study of Entrepreneurship and innovative SMEs shows the significance of innovation as a driving force for economic growth which he believes can be achieved through the infusion of creative ideas into business that set it apart in a competitive market and also ensuring the introduction of quality ideas, product and service into the market, thus, ensuring continued profitability. The impact of innovation on the growth of business was also buttressed by Stojčić and Hashi (2014). His study showed a direct relationship between the productivity output of a business enterprise and innovation which goes to show the importance of innovation to every business that seeks to continue to adapt to the constant changes in market as such the role of Research and development should not be over-emphasized.

Two major forces have been observed to propel the need for innovation which cut across different sectors of the economy and these driving forces are the consumer and the competitive market force. Of the previously named force, the consumer is the most significant as it determines the market value of products and services considering that once the demand is high; the price value also increases (Krasniqi & Kutllovci, 2008). Therefore, the need for companies and business enterprises to innovate becomes imprinted in the heart of entrepreneurs so as to remain relevant in the market with several other authors (Li & Atuagene-Gima, 2001; Langley, Pals & Ort, 2005; Aralica, Račić & Radić, 2008; Lee et al., 2010; Božić, 2011; Kanagal, 2015; Vicente, Abrantes & Teixeira, 2015; Jusufi, Ukaj & Ajdarpasic, 2020) affirming to the prominent role of innovation in the enhancement of products and services towards the actualization of customer satisfaction. More so, innovation gives a product a competitive edge in the international market as such it is vital in the exportation of products to other countries and also in the building of trust among Kosovar citizens as they tend to buy products that are imported rather than the domestically produced products. This reflects distrust among local consumers for local products as they believe their products are inferior when compared to those imported.

The usage of modern and quality technology sets a business enterprise apart and ensures the better engagement of innovative processes. Vega-Jurado et al. (2008) study reveals that companies with more advanced and robust technology tend to have innovative products that are superior and even meet the demand of the market which goes to prove the relationship between advancement in technology and innovative processes. While still on the importance of technology, some studies have stressed the importance of technology in improving innovation, they believe that the technological competence of business enterprises is a prominent factor in their development of improved products and services as well as the improvement of the already existing services that meet the need of customers and the market in general (Zhou et al., 2005; Berkhout et al., 2010; Elezaj, 2019). But, a major challenge that business faces is their ability to meet the financial demands of acquiring new technology that would have a direct impact on their innovative potential, and most importantly, the adaptation of businesses to these new technologies (Salavou et al., 2004; Mahemba & De Bruijn, 2003; Alstrup, 2000). This situation is also peculiar to a country like Kosovo as majority of businesses lack the technology to develop products that are competitive in the international market as a result of their economic capacity.

## 2.2 Innovation and Branding

Branding is an integral and important aspect for any business that intends to grow and it involves activities that are directed toward raising awareness towards products and services and more significantly, shaping the consumer's perception of their services. The relationship between branding and innovation is immense as it determines the category of customers that utilize business enterprises' services and how these businesses can attract these customers. Branding has the potency

of enabling business to maintain a competitive advantage. Market competition and innovation are active forces that determine growth of economy through profit generating enterprises. Invariably speaking, quality innovations and a competitive market are necessary for the development of a robust economy which could be the reason that branding is essential in our present world in the development of quality service and new product.

Purchase and Volery, (2020) noted that branding and innovation “foster innovation ownership, credibility, and acceptability, enhance visibility and facilitate communication”. Sharma et al., (2016) noted that brand performance has a direct impact on the role of innovation in any organization. Thus, the acceptability of a brand by consumer leads to enhance loyalty to the brand and further enhance the innovative capacity of the product (Lin et al., 2019). Therefore, business enterprise that want to develop international recognition must be increasing concern about their brand considering that consumer behavior is ever changing, therefore, branding should be a continuous process (Saefer et al., 2021b). Innovative activity should be directed towards the achievement of consumer loyalty to brand which will ultimately translate to achieving sustained business growth (Loucanová et al., 2021).

The acceptability of product and service is a prerequisite function of innovation which is the reason for Lowe and Alpert (2015) noting that “the innovation performance is determined by the consumer response to new products. As a result, consumer responses affect firms’ innovation”. Consequently, business enterprises must continue to make changes to product and service to remain relevant as well as paying attention to the environment of their store and initiate marketing strategies necessary for the influencing of consumer. The fore mention will invariably lead to the retention of old customers and the acquisition of new ones (Zameer et al., 2019).

### 2.3 Transition Economy

According to Round (2009:355), “Transitional economies are considered to be countries which are undertaking macroeconomic reforms in an attempt to alter the ways in which their economies are managed. Traditionally, it implies that the country is making a structural adjustment from a state-run economy toward a more market-led system”. This implies that the economy is not under a centrally planned economic system and has metamorphosed or in the process of change into a market economy considering that that the force at work in this economy is the forces of demand and supply. The market itself controls the economy and as such, both the consumers and the suppliers are controlled by the price. Some countries of the world practice the market economy while others are in the process of change from a centrally planned economy to market economy and these countries are called transition countries, therefore transition countries are countries whose economy is in transition from planned Economy with majority of countries are found in central and Eastern European region (Elezaj et al., 2022, Sauka & Auza, 2014). While some of these countries have completed their transition process, some are in the early phase and the republic of Kosovo happened to be among the countries that are in the early phase of transition.

Countries such as Croatia, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Romania, Slovenia, Slovak Republic, and Poland are nations that have completed their transition processes as at 2019 while Armenia, Albania, Bosnia and Herzegovina, Kosovo, Georgia, Moldova, North Macedonia, Russia, Montenegro Ukraine and Serbia are still within their transition phase (IMF 2000, World Bank 2002, 2009). The process of transition is usually a gradual process but undergoes series of transformational stage that are usually subject to market forces or price with countries that had civil war or part of conflict is a common characteristic of some of these countries.

### 3. Methodology

The aim of the study is to evaluate the role of innovation and branding on enterprise sales growth in transition countries with the Republic of Kosovo being the case study of the survey. The Study adopted a qualitative approach in order to achieve the objective of the research and the data of the

survey were collected over a period of six months that spanned between June and November, 2022. 300 business enterprises from diverse sectors of the economy which are: Trade, Production and Service sector were targeted to ensure the involvement of all sector of the economy with majority of businesses in Kosovo under the service sector, followed by the production and trade sectors as indicated by (Elezaj et al., 2022; Ukaj et al.,2022).

The survey was centered in the commercial regions of Kosovo that occupies the majority of business enterprises within the country namely Prishtina, Prizren, Peja, Mitrovica, Gjilan, Gjakova and Ferizaj. Prishtina is the major commercial hub of the nation as it represents the capital of the Republic of Kosovo while other cities with several businesses are Peja and Ferizaj. For the purpose of this survey, the CEOs of 300 business enterprises were interviewed alongside other staff such as human resource managers, sales and marketing managers, financial managers, etc to obtain data as regards the subject of discussion. More so, data on businesses such as size, number of employees, sector etc. were collected from the Ministry of Trade and Industry of Kosovo (Elezaj et al., 2022).

The hypothesis of the study has been represented in null hypothesis below:

1.  $H_0$ : Service delivery does not have an effect on increase sales in business enterprises in Kosovo.
2.  $H_0$ : Innovation in technology does not have an effect on increase sales in business enterprises in Kosovo.
3.  $H_0$ : Innovation in business model does not have an effect on increase sales in business enterprises in Kosovo.
4.  $H_0$ : There is no relationship between brand innovation and in business sales growth in Kosovo.
5.  $H_0$ : There is no relationship between the age of the entrepreneur and innovation of business enterprises in Kosovo

#### 4. Econometric Model

The econometric model of the study contains the dependent and independent variable of the study as such the dependent variable of the study is the sales growth while the independent variables are the service delivery, advancement in technology, business model and the age of the entrepreneur, business brand. The econometric model of the study is summarized into the table below for ease of understanding.

**Table 1.** Variables (Dependent and Independent) with categories

| <b>Dependent variable:</b>    | <b>Categories</b> |
|-------------------------------|-------------------|
| sales growth                  | 1- Yes; 0- No     |
| <b>Independent variables:</b> | <b>Categories</b> |
| Service Delivery              | 1- Yes; 0- No     |
| Technology                    | 1- Yes; 0- No     |
| Business Model                | 1- Yes; 0- No     |
| Business Branding             | 1- Yes; 0- No     |
| Age of entrepreneur           | 1- Yes; 0- No     |

**Source:** Author

The variable of the study were grouped into dependent and independent categories as represented in the Table 1 above. The duration of the analysis spans from 2018-2022. The managers of enterprises were queried about whether there was a general improvement in their revenue during the aforementioned period attributable to their engagement in innovative activities under the categories mentioned. Majority of the enterprises amounting to 62% of businesses interviewed were of the

opinion that their business had improved with increased sales as a result of engaging in innovative activity while 38% noted their business sales have not improved. Based on these data, the econometric model can be presented as follows:

$$P (Y_i = 1) = \beta_0 + \beta_1 \text{Service delivery} + \beta_2 \text{Technology} + \beta_3 \text{Business Model} + \beta_4 \text{Branding} + \beta_5 \text{Age of Entrepreneur} + \epsilon_i$$

Based on these data, the econometric model can be presented as follows:

## 5. Results and Discussion

### 5.1 Results

The data obtained from the interview conducted were summarized, analyzed and presented in the tables below:

**Table 2:** Entrepreneurs from different sectors interviewed

| Sector       | Number of Entrepreneur interviewed |
|--------------|------------------------------------|
| Service      | 148 (49.3%)                        |
| Production   | 85 (28.3%)                         |
| Sales        | 67(22.3%)                          |
| <b>Total</b> | <b>300 (100%)</b>                  |

Source: Author

The Table 2 indicates that 49% of entrepreneurs interview were from the service sector while 28.3% and 22.3% represent those from production and sales respectively.

**Table 3.** Hosmer and Lemeshow's Goodness of-fit test

|                                  |       |
|----------------------------------|-------|
| Number of observations           | 300   |
| Hosmer-Lemeshow chi <sup>2</sup> | 7.91  |
| Prob> chiz                       | 0.728 |

Source: Author

Table 3 above reveals the suitability of data for our model. The result indicates that our data fits the model used which is necessary for obtaining reliable results.

**Table 4.** Multicollinearity test

| Variables           | VIF  | SQRT VIF | Tolerance | R-Squared |
|---------------------|------|----------|-----------|-----------|
| Service innovation  | 1.12 | 1.03     | 0.84      | 0.172     |
| Technology          | 1.16 | 1.01     | 0.72      | 0.138     |
| Business Model      | 1.07 | 1.03     | 0.75      | 0.161     |
| Business Brand      | 1.18 | 1.02     | 0.76      | 0.140     |
| Age of Entrepreneur | 1.11 | 1.15     | 0.73      | 0.136     |

Source: Author

The result (in Table 4) indicates no multicollinearity between the variables (independent variables) considering that the tolerance are greater than 0.2 and more also, the variance inflation factor are less than 0.5.



**Table 5.** Logic Model Estimation

| Variables           | B     | S.E.  | Wald  | df | Sig.     | Exp(B) |
|---------------------|-------|-------|-------|----|----------|--------|
| Service innovation  | 0.753 | 0.536 | 1.363 | 1  | 0.041**  | 1.132  |
| Technology          | 1.484 | 0.528 | 3.436 | 1  | 0.022*   | 1.258  |
| Business Model      | 0.529 | 0.629 | 1.432 | 1  | 0.005*** | 1.032  |
| Business Brand      | 3.758 | 1.623 | 3.349 | 1  | 0.015    | 0.011  |
| Age of Entrepreneur | 0.537 | 0.633 | 1.323 | 1  | 0.004*** | 1.043  |
| Constant            | 5.888 | 1.967 | 5.559 | 1  | 0.011    | 0.009  |

\* Significant at 10% level, \*\* significant at 5%,\*\*\* Significant at 1% level

**Source:** Author

Table 5 shows that the variables under study have significant effect on business sales rate. The statistics was conducted at 10%, 5% and 1% level of significant.

### 5.2 Discussion

Service delivery has a significant impact on enterprise sales rate which negates the null hypothesis. Service delivery ensures the retention of customer base and further aids in the recommendation of brand to potential customers who are essential not only in the generation of profit but in the general survival of the business enterprise considering that a happy customer is a buying customer. More so, bearing in mind that majority of medium to small scale business falls under service rendering sector, it should be expedient that entrepreneurs pay reasonable attention to ensuring the satisfaction of their customers, therefore, innovation in service delivery should not be taken with levity.

Younger entrepreneurs tend to have higher creativity, intuitive and more flexible to change which could be the possible reason that they are more likely to engage innovative activities that will result in increased performance of business enterprises. The result of the relationship between the age of entrepreneur and innovation of business enterprises in Kosovo reveals that younger entrepreneurs are more innovative. This is consistent with previous studies that reveal that younger managers of business are more likely to take risk and also engage in business strategies designed for the overall growth of companies when compared to older managers (Hambrick & Mason, 1984; Mudambi & Treichel, 2005, Mahmutaj & Krasniqi, 2020). Mahmutaj and Krasniqi (2020) went further to give reasons that older executive possesses less strength and stamina mentality for proper grasp of innovative and new ideas when compared with younger executive that still possess youthful exuberance and in addition, older entrepreneurs are less likely to take risks due to concerns about their personal financial security. It is not surprising that the Government of Kosovo view innovation as a means of achieving economic sustainability which could be the reason that they continue to direct programs suitable for the enhancement of innovation in business enterprises. Program such as “Supporting Kosovo’s Young Leaders (SKYL) Youth Programme, and the Young Entrepreneurs Programme”, which commenced from 2012 for young entrepreneurs under 35 years of age and start-up companies that are less than 24 months old reflects the faith that Kosovar government have in young entrepreneurs considering that they are more likely to engage in innovative process that carries the potential of bringing about positive influence on the nation’s economy.

Brand innovation plays a significant role in the performance of a business enterprise, as consistent with previous studies (Sharma et al., 2016; Liu & Atuahene-Gima, 2018; Zameer et al., 2019; Purchase & Volery, 2020; Fitzgerald et al., 2020). Branding raises awareness of a product or service, promoting ownership, marketability, and acceptability. Kosovar consumers have shown preference for foreign products over locally-made ones, which could be as a result of poor product branding; as they perceive indigenous goods as inferior. Brand loyalty would thus significantly impact brand recommendation, and a country like Kosovo that is in transition, product branding should be taken



seriously as it gives local product a competitive edge in the international market. This would aid in the exportation of Kosovar products not only to countries such as Albania, Serbia, Montenegro, and Switzerland but also to other countries in Europe. It would also provide a platform for the development of Kosovar export industry and attracting foreign investors.

The study found that the relationship between innovation in technology and business enterprise sales was significant, and thus rejects the null hypothesis. Technology enables the successful initiation of innovative activities that is necessary for the development of quality product and in the rendering of efficient service. However, smaller enterprises are faced with the challenge of inadequate funds to successfully adapt to new technology that are required for the development of high-quality products that possesses competitive edge in the market.

Innovation in business model is a prerequisite for every organization that seeks to generate profit as it sets up the action plan necessary for business enterprise sales growth. The study noted that a business with innovative business model tends to thrive economically, and such innovative model is not only a requirement for new business enterprise but should also set the foundation for older businesses, ensuring their relevance in the market. A business model identifies new potential market targets, aiding the proliferation of the enterprise products and services, thus leading to recognition and trust for the business brand. Therefore, the business model should constantly undergo innovative modifications so as to always meet the needs of consumers whose behaviour and perception can easily be swayed.

## 6. Conclusion

The study indicates that Kosovar entrepreneurs are taking necessary measures to integrate an innovative approach into their enterprises. Despite their sales improvement within the last five (5) years, the improvement has not had considerable impact on the country's exportation industry and also in the attraction of foreign investors. This means that more work needs to be done in the development of indigenous brands that are capable of competing in the international market which will further contribute to the increase in the nation's Gross Domestic Product (GDP) of the nation. More so, the marketability of product and service is tied successful brand as such entrepreneurs should ensure to devote resources towards research geared at understanding the behavioral pattern of their consumers and create a brand that meets this demand. Awareness to brand must constantly be done through advertisement of product internationally and engaging in promotional activities that will raise awareness to product so as to have a competitive chance of survival in the local and international market.

The use of advance technology remains a cornerstone in the initiation of innovative activity considering that the world is constantly changing with advancement in technology, consequently, Kosovar entrepreneurs should be more flexible in the usage of advance technology to develop quality and durable product that could easily gain acceptability. Creativity should be applied in the development of new products that actively meets the demand of consumer which is mandatory in satisfying their target consumers' needs and further reach out to new consumers. More so, products should constantly undergo quality assurance test to ensure that produce meet the quality demand in the market to prevent the labeling of product inferior in the market and to further phase out defective product.

Business enterprises in Kosovo should be flexible to perpetual changes in the market, as such, an innovative business model should be implemented to track potential market sources and future expenditure so as to adequate monitor the growth rate of their business. More so, bureaucratic bottleneck should be reduced in business organization to allow the free flow of innovative activities within business environment as timing is essentially required for the successful engagement of innovation.

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