Improve The Performance Of SMES Through Innovation Strategies In Developing Countries

Arnis Budi Susanto, Wasito

Abstract: Innovation strategy is a key driver for the performance of small and medium enterprises (SMEs) by applying a culture of innovation in a strategic and structured way. To improve the performance of SMEs innovation strategies are aligned and closely related to the innovation process undertaken by SMEs in various fields

Keywords: Innovation, Strategy, Performance, SME.

1 Introduction

For decades, small and medium enterprises (SMEs) of manufacturing contribute to the global economy including Indonesia (Kuswantoro et al, 2012; Hafeez et al., 20012; Jaiyeoba, 2011; Edwards, 2005) .SME is the backbone of modern economic life and is considered a as an engine of economic growth and employment (Marsuki, 2006; Hajipour and Ghanavati, 2012; Hafeez et al., 2012). SMEs play an important role in the system of business development and advancement in the state economy (Man, 2009; Idar and Mahmood, 2011; Opeda et al. 2011; Hajipour and Ghanavati, 2012) SMEs have become important as sources of employment and maximizing the efficiency of resource allocation material and also acts as a supplier of goods and services for large companies. Empirical studies show that small and medium enterprises have problems and constraints in improving their performance. According to Hinson & Mahmoud (2011), SMEs have difficulty adapting to market change strategies and competing with big companies. SMEs do not have a structured marketing plan. Business owners do not understand market orientation and focus only on customers. Empirical study results (Kiran et al, 2012) SMEs in India lack competitiveness. Competitiveness explains the ability of small industries (SSIs) to generate output revenue and maintain employment levels in the face of domestic and global competition. Currently SMEs are very vulnerable to changes that occur in the world economy and the urgent need for SMEs to increase competitive advantage. Although the development of SMEs both quantitatively and qualitatively quite well, but that does not mean SMEs do not experience problems. Idar and Mahmood (2011), SMEs face enormous pressure affecting external and internal factors that can be found in business environments, such as globalization, technological innovation, and demographic and social change, and innovative capabilities. According to Najib (2006), the good performance of SMEs is characterized by increasing sales, gain profit, market share is increasingly widespread, and consumers are increasingly satisfied.

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This can happen when the SMEs move not on the basis of production capability alone, but also directed by the dynamics of the market going. Companies not only produce, but pay attention to the interests and needs of consumers. This kind of practice is popular with market oriented or market-oriented companies. Another obstacle faced by SMEs is related to corporate innovation. Innovation is one of the basic instruments of new growth strategies to enter the market, to increase existing market share and provide companies to be competitive. (Gunday et al., 2009). Innovation can be a potential solution for SMEs (Hafeez et al., 2012). One way to develop and improve competitive advantage and improve performance is through resource utilization and enhancing innovation for SMEs (Hilmi and Ramayah, 2008). Innovative methods applied can enable SMEs to compete and survive in a competitive global environment. (Kiran et al., 2012). Gunday et al, (2009) identified an innovation relationship with firm performance in the manufacturing industry in Turky. The finding that the innovations made in the manufacturing companies has a significant positive relationship on performance. On the other hand that company innovation has a higher market share, total sales and exports. These findings support the fact that innovation strategies are a key driver of importance to corporate performance. Corporate innovation is the strongest driver of performance. In addition, with the company's innovation occurs higher sales and exports. The innovation process was found to be significantly associated with innovative performance through product innovation and a positive impact on company performance. Direct and positive innovations are influenced by product, organization and marketing. Gunday et al, (2009) four types of innovation ie company innovation, marketing innovation, process innovation, and product innovation affect the company's performance aspect. Innovation mediates the relationship between market orientation and company performance. (Johnson et al, 2009).

2 Literature Review

2.1 The Linkage Between Corporate Innovation and Performance

Innovation strategy is a key driver for the performance of small and medium enterprises (SMEs) by applying innovation culture in a strategic and structured way. To improve the performance of SMEs through enhancing cultures and innovation strategies that are aligned and closely related to the innovation process (Salim and Sulaiman, 2011; Hoq and Chowdhury 2012). Bodlaj (2010), explains the performance of innovation refers to the sale of new products, new product market share, timely new product launch, new percent of product sales in total sales. New products must provide value for customers therefore market orientation is an important factor in successful new product development. The performance of new products is a changing addition for customers and companies this implies that the impact of market orientation depends on the degree of novelty. Najib et al. (2011), suggesting that innovation affects the performance of manufacturing SMEs. While (Han et al. (1998), offers the concept of innovation as a missing link that bridges the relationship between market orientation and performance.The relationship between corporate innovation and performance capability implies that innovation becomes a competitive advantage when it is based on a deep understanding of customer needs, competitor action, and technological development.Because of the ever-changing competitive environment, companies that fail to implement innovation find it difficult to survive on a par with competitors (Salim and Sulaiman, 2011, Andreassi 2003). Hitt et al. (1997), states that effective innovation results in sustainable competitive advantage. Small companies are perfect for developing innovations that do not require large amounts of capital. Innovation is aided by cross-functional teams, inter-func- tional integration can reduce the time it takes companies to introduce innovative products to the market, develop product quality, and help companies create value for targeted customers.

2.2 Business Performance

Business performance can be measured by a number of actions that can be broadly divided into financial performance and nonfinancial performance. Measures of business financial performance (income such as sales growth, economic added value, and cash flow). Measured with time lag as only considering financial performance measures in unnecessary competitive environments. The measure of market performance is an important group of nonfinancial performance. Market performance refers to customer satisfaction and customer loyalty whereas financial performance refers to sales value, sales growth, and gross profit or gross profit. Market performance has a positive impact on financial performance. Bodlaj (2010), measures six market orientation constructions that are responsive market orientation, proactive market orientation, degree of novelty, innovation performance, market performance, and financial performance. Another view on the performance of the company disclosed by Jauch and Glueck (1999), that the performance of a company can be seen from the aspect of quantitative and qualitative. Quantitatively the performance of a company can be seen from the company's achievement compared to what it did in the past, or compare it with its competitors in a number of factors such as net profit, stock price, dividend rate, share earnings profit, return on capital, equity returns, market share, sales growth, number of working days lost due to strike labor, production cost and efficiency. While qualitative measures of questions asked to find out whether the objectives, strategies, and plans are comprehensively integrated from a company is consistent, appropriate and can work well or not. Company performance is measured by using two aspects: market performance and financial performance. Market performance refers to the extent to which a company reaches its market share, profit ratio, and customer satisfaction. Financial performance refers to the extent to which firms make a relative profit, return on investment, and total sales growth. (Salim and Sulaiman, 2011). While Gunday et al. (2009), company performance can be seen on four factors namely a) financial performance factor b) innovative performance factor c) production performance factor d) market performance factor Business organizations can measure their performance by using financial and nonfinancial measures. The financial size is usually sales and profit before tax (Inoghuci, 2011), while non-financial measures such as customer satisfaction, employee turnover, productivity (Chong, 2008). To measure the company's performance and the effectiveness of resource use can be done with four approaches, namely, objectives, resource system approach, stakeholder approach, and competitive value approach evaluating the company's performance on its ability to meet the needs and expectations of external stakeholders, eg customers, suppliers and competitors.

3 Discussion

3.1 Innovation Strategy as a Driver of SME Performance

Innovation strategy is a key driver for the performance of small and medium enterprises (SMEs) by applying innovation culture in a strategic and structured way. To improve the performance of SMEs through enhancing cultures and innovation strategies that are aligned and closely related to the innovation process (Salim and Sulaiman, 2011; Hoq and Chowdhury 2012). Bodlaj (2010), explains the performance of innovation refers to the sale of new products, new product market share, timely new product launch, new percent of product sales in total sales. New products must provide value for customers therefore market orientation is an important factor in successful new product development. Innovation can be a potential solution for SMEs in developing countries in the world (Hafeez et al., 2012). Companies that have the resources to improve innovation ability can significantly increase production and market performance, so companies need to further enhance innovation activities (Gunday et al., 2009).

3.2 Impact of Innovation Strategy on SMEs Performance

Previous studies related to company innovation with performance include Najib et.al (2011) indicating that innovation affects the performance of manufacturing SMEs. Kuswantoro et.al (2012), states that innovation is a key driver for companies to pursue competitiveness and improve the performance of SMEs. Andreassi (2003), argued that small companies need to raise awareness of the importance of innovation investment. Uhlaner et.al (2007), examines the relationship of knowledge management and innovation to company performance. Hafeez et.al (2012) states that innovation is considered an important element in business growth and an important factor of corporate excellence. Hitt et.al (1997), states that effective innovation leads to sustainable competitive advantag.

4 Conclusion

Innovation has an influence on the performance of manufacturing SMEs. This shows that company innovation can directly affect performance. The application of company innovation is measured by technological innovation, managerial innovation, marketing innovation, and product innovation. Company innovation is done in an effort to make continuous improvement (sustainable) to company performance, so as to achieve the best performance (superior performance).

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