

Determinants of Innovation Performance among SMEs: Moderating Effect of Entrepreneurial Orientation

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Abstract

Purpose: Small and medium enterprises (SMEs) play a significant role in the economic development of many countries all over the world. As globalisation has reduced the importance of economies of scale, growth opportunities for SMEs are increased. To be able to grab the opportunities, being innovative has become a necessity for SMEs. Therefore, it is crucial for SMEs to understand the determinants fostering their innovation performance. Accordingly, this study proposed top management support, employee orientation, and customer focus as the determinants of the innovation performance among SMEs and examined the moderating effects of entrepreneurial orientation on the relationships among the determinants.

Design/methodology/approach: Using a quantitative research design, data was collected from top management personnel working in SMEs in Malaysia. SmartPLS 3.0 was applied and the research model was empirically tested using the 214 responses received from the survey.

Findings: The analysis revealed that among three constructs, only employee orientation and customer focus are significantly related to innovation performance. In addition, the results revealed that entrepreneurial orientation plays a moderating role. The positive relationship between employee orientation and innovation performance is greater when high level of entrepreneurial orientation is present.

Research limitations/implications: First, the findings of this study were based on cross-sectional data. Second, the sample of this study was restricted to Malaysia only. Findings of this study contribute to the literature by determining the interrelationship between employee orientation, customer focus, entrepreneurial orientation, and innovation performance.

Practical implications: The findings imply that employee orientation and customer focus were positively related to innovation performance. Furthermore, entrepreneurial orientation was found to moderate the positive relationship between employee orientation and innovation performance.

Therefore, employee orientation, customer focus, and entrepreneurial orientation should be top strategic priority for SMEs to improve their innovation performance.

Originality/value: This study contributes to the literature by demonstrating the moderating effect of entrepreneurial orientation. Moreover, this study also enriches the literature by showing that employee orientation and customer focus are essential for enhancing innovation performance.

Keywords: Top Management Support, Employee Orientation, Customer Focus, Entrepreneurial Orientation, Innovation Performance

Introduction

Small and medium enterprises (SMEs) have long been acknowledged as a main contributor to economic development of many countries around the world. In 2015, just under 645,136 SMEs in Malaysia contributed to 36.3% of the country GDP and employed 6.6 million people. The globalisation has put a great pressure on SMEs as SMEs need to compete in an increasingly turbulent business market with fast-changing technology and rapid changing customer preferences (Hussain et al., 2015). Meanwhile, the globalisation has reduced the importance of economies of scale and thus comprises more growth opportunities for SMEs (Chrysostome & Molz, 2014). In order to adapt to this dynamic business environment, it has been suggested that an organisation should emphasis on innovation performance (Gumusluoğlu & Ilsev, 2009; Jung et al., 2003). Innovation performance refers to the outcomes generated by the innovative behaviour of organisation (Bai & Ren, 2016) and it can be in the form of product, service, process, policy, system, program, or device that is new to the organisation (Damanpour, 1991). Typically, SMEs are constrained by limited financial and human resources, limited technology, limited information and experience, and liability of smallness (Hilmersson, 2014). Nevertheless, despite these constraints, SMEs tend to be more creative, innovative and flexible than large organisations. To support such innovative potential, it is crucial for SMEs to identify the determinants that foster innovation performance.

Stakeholder theory indicates that organisations should maintain good relationships with their various stakeholders as this can help the organisations to develop intangible but valuable assets, which in turn leads to competitive advantage (Freeman, 1984; Hillman & Keim, 2001). In this regard, previous literatures found that top management support, employee orientation and customer focus are essential for business success (de Bussy & Suprawan, 2012; Iqbal et al., 2015; Ziggers & Henseler, 2015). Therefore in the context of SMEs, it seems reasonable to expect that these three constructs are the important determinants in fostering innovation performance. On the other hand, entrepreneurial orientation has been a subject of interest in management studies for many years, but its moderating effect has been largely neglected (Hussain et al., 2016). Thus, the objectives of present studies are two-fold: (1) to determine the determinants of innovation performance for SMEs; and (2) to explore the moderating effects of entrepreneurial orientation on the relationships among the determinants. The outcome of this study will contribute to both theoretical developments and managerial practice in the context of SMEs. In terms of theoretical implications, the present study contributes to the growing number of research efforts to discover the determinants of innovation performance among SMEs and for establishing the moderating effects of the entrepreneurial orientation. In terms of managerial implications, this study will help entrepreneurs to identify the most important determinants with different levels of entrepreneurial orientation to enhance their innovation performance.