

IMPACT OF ENTREPRENEURIAL MINDSET ON SMES PERFORMANCE: AN EMPIRICAL EVIDENCE FROM PAKISTAN

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ARTICLE INFO	ABSTRACT
<p><i>Article History:</i> Received: 11 Apr 2019 Revised: 10 Nov 2019 Accepted: 11 Jan 2020 Available Online: 31 Mar 2020</p> <hr/> <p><i>Keywords:</i> Product innovation, Process innovation, Market innovation, Small and medium enterprises (SMEs)</p> <hr/> <p><i>JEL Classification:</i> L26, L31</p>	<p><i>Purpose:</i> The study is an effort to identify the effects of strategic innovation on performance of small and medium enterprises of Pakistan. The study evaluated the effects of product innovation, process innovation and market innovation on performance of small and medium enterprises of Pakistan.</p> <p><i>Design/Methodology/Approach:</i> The sample was drawn from the 102 small and medium enterprises which were operating in the Pakistan. Data was collected from employees of the small and medium size enterprises operating in Pakistan. Structured questionnaire was used to collect the data. Data was analyzed through SPSS software.</p> <p><i>Findings:</i> The findings of the study show a positive relationship between innovation and performance. Results proved that introducing new products helps the small and medium size enterprises to increase their performance, or enhancement of current product also helps small and medium size enterprises to increase the performance.</p> <p><i>Implications/Originality/Value:</i> The study concludes that in current competitive business environment, it is necessary for firm to be innovative in their products, processes and market to enhance their performance. Study findings conclude that strategic innovation is one of the most important factors of the firm for their performance.</p>

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1. INTRODUCTION

In the current complex and dynamic business situation it is very important for the organization to be innovative to survive in the market. Innovation does not mean introduction of any new product or service, or to modify the current product but it also includes changing of the administration structure as well as the basic structure of an organization Hurley, Hult, and Knight (2005). According to some researchers innovation varies from firm to firm and innovation is dependent on the various factors (Silva & Carreira, 2012). Therefore for the success of any organization it is necessary that organization should introduce new ideas and technologies in its products, processes and its structure, which will ultimately help the organization in enhancing its performance (Neely, Adams, & Kennerley, 2002). In this complex competitive environment every organization tries to compete its rivals in terms of performance and create some competitive edge in the market which will lead the firm towards the sustainable competitive advantage. The current style of business forces the organization to create innovation, which is only possible through research and development of new products and processes (Bartes, 2013). According to researchers innovation is a process of creating new products, services, technologies and improvement in current process, (Ramadani & Gerguri, 2011).

Organizations set specific goals and objectives and create different strategies to achieve these goals and objectives. Strategy can be defined as the collection of actions and decisions that the higher management decides for daily course of activities in order to achieve the higher performance (Parthasarthy, 2007). Organizations use different strategies in order to achieve their business objectives and goals and innovation is one of the strategies which a business enterprises used for this purpose. Organizations create innovation through adoption of the new technologies (Johnson, 2011). Strategic innovation includes the process of introducing the new products into the market, new business processes and new technologies, strategic innovation also includes adding value addition to the current processes and products (Gebauer, Worch, & Truffer, 2012).

According to some researchers strategic innovation considered as the combination of innovation and strategy and it is also perceived as the penetration into the new era and market, creation of valued customers and improvement in current products and services (Gebauer et al., 2012). It can also be defined as a main factor of making or creating strategy and development of unique products and services (Derrick & Soren, 2007). Strategic innovation is the core factor for an organization to create competitive advantage in the market (Snyder & Duarte, 2003). Critical research proved that the strategic innovation is very important for the firm to improve their performance and then there will be an increase in profits and their market shares (Palmer & Kaplan, 2007). Due to continuous changes in global demographics, organizations are bound to make changes in their business styles to survive in the market it leads the firms towards strategy making and creating products and services (Moeller, Fassnacht, & Klose, 2006). Strategic innovation is the combination of the three variables who, what and how, the strategic innovation should consider these three variable while making the strategy. This will lead the organization towards new products, new services and new production styles, use of new and advanced technology, new market and new way of doing the business activities. There are four different types of strategic innovation which include production innovation, process innovation market innovation and organizational innovation (Staff, 2005). In the current business atmosphere, business activities are not bound to geographical territories. Now, it is very easy for all organizations to expand their business activities at global level. Therefore, it is the basic need of every organization to make their strategies with performance measurement systems (McAdam & Bailie, 2002). However it is a big challenge for the small and medium size enterprises to make changes due to lack of resources and sufficient management capabilities and expertise (Garengo & Bititci, 2007).

1.1 Research Question

- What is the impact of product innovation on the performance of small and medium enterprises?
- Is Process innovation significantly creating an impact on the performance of small and medium enterprises?
- How can market innovation affect the performance of small and medium enterprises?

2. LITERATURE REVIEW

2.1 Product Innovation and Firm Performance

Product innovation defined as the changes which made in production line of the organization, introducing of new products or use of new products and materials in the process of production (Kam-Sing Wong, 2014). It can also be defined as the process of uses of new material to create the new product in the market which results customer satisfaction (Langley, Pals, & Ortt, 2005). Product innovation defined as the process of introducing new services and new goods with the objective of the attracting new customer and which results in creating new market (Wang & Ahmed, 2004). According to some researchers product innovation is related with process innovation because product innovation originates from creation of new ideas (Wang & Ahmed, 2004). Product innovation includes research and development of products, products featuring with the objective of the introducing new products into the market (Alegre, Lapiedra, & Chiva, 2006). Joseph Schumpeter- financial specialist and an economist of Germany promoted early idea of innovation in the up gradation of economy and business. According to Schumpeter's perspective, innovation involves components of creativity, exploration or research and advancement (R&D), improved procedures, new items or services and development and advancement in technologies (Dess& Lumpkin, 2001). Innovation is among the highly imperative competitive arm and is normally perceived as an association's center worth capacity or focused value talent (Sandvik & Sandvik, 2003). Innovation is likewise seen a powerful approach for enhancing company's profitability because of the asset limitation issue confronting a firm (Lumpkin & Dess, 1996).

The ability inside product and organization innovation is pungent for a firm to miss use new opportunity and earn focused/opponent benefit (Bakar & Ahmad, 2010). Outsiders usually assess an organization's ability by taking into account its performance (Bonn, 2000). This suggested that performance is like looking glass to an organization. The extent to which an organization achieves its objectives normally depicts its performance (Etzeland Achrol, 2003). Organization's performance is result which is attained in accomplishing inner objective and outside the organizations objectives (Lin, 2008). Being multiple dimensional model, performance has various names like growth, endurance, victory and aggressiveness (Hamilton and Dobbs, 2006). It is explained as the generation of a new product by new mater (entirely fresh item) alternatively them modification of previous products for the purpose of consumer satisfaction (modified and up graded version of previous items) (Langley et al., 2005). This pertains towards introduction of new product and services for the purpose of creating new markets or clients, or fulfill existing markets /clients (Wan, Ong, & Lee, 2005). Product innovation can be achieved through new ideas. Innovation in the product gives a range of options for products (Craig & Hart, 1992).It is among the most important source of benefit over competitors.

Through advancement features of products can be improved, that would ultimately add up to firm performance and advantage over the competitor (Forker, Vickery, & Droge, 1996). Innovation in product provides an implied safety to firm from industry peril and rivalry (Hult, Hurley, & Knight, 2004). Product innovation has direct and highly important connection with performance of firm (Im, Bayus, & Mason, 2003). The study of (Hernández-Espallardo & Delgado-Ballester, 2009) proved direct effect of innovation on performance. In the same way (Alegre et al., 2006) find that the two dimensions of innovation in product (efficacy and efficiency) are highly and directly connected to firm's performance. Small and medium enterprises (SME's) play an important role in economic growth of a developing country. Big companies or organizations having different characteristics as compare to small and medium enterprises. There are some major gaps between SME's and big companies like their resources are limited, their strategies are short term but SME's can switch their structures in no time they can response more quickly as compare to big companies and they can easily adjust with the changing environment in the industry (Terziovski, 2010). It is true that large enterprises take more time to response to the running market conditions as compare to SME's. Talking about large enterprise, they are responsible for introducing for the innovations and different technologies in the markets. Now SME's have to run their businesses according to those innovations, it is compulsory for their survival in the market (Whittaker, Fath, & Fiedler, 2016). The process of innovations possible due to the innovators who work for it, and their innovations are followed by the organizations, there are some kind of exceptions too (Hervas-Oliver, Sempere-Ripoll, & Boronat-Moll, 2014). The organizations and their research and development departments work hard sometime day and night for the success of their innovations for the companies (Lasagni, 2012). Product innovation is necessary and one of the most concerned factor for SME's, (Mohnen & Hall, 2013) said that whenever you are having with the improvement in your products or services or bringing or setting up new products or services it is known as product innovation. Now according to all of them the product should be new or improved in the sense of its material, technology, easy to use, its software or may be its features and shape it will be consider as product innovation. The change in design of a product or service, change in its usage or may be the change in its characteristics they all are considered as product innovation OECD (2005). According to (Gatignon, Tushman, Smith, & Anderson, 2002) main concern of making innovation in products is due to catch the attention of the customers towards your products. In another way product innovation can be defined as making some new products or materials or replacing the old ones with the new ones to attract your customers, meeting the market competitors, getting a competitive edge and making the customers satisfy. Firms can achieve competitive advantage by making innovative products (Camisón & Villar-López, 2014). A firm's competitive advantage can be achieved with product innovation, the quality of the products can be more improved and a firm's performance can also be improved with it.

2.2 Importance of Product Innovation

Literature shows the importance of the product innovation, recent study argued that product innovation is very important for an organization to create competitive advantage in the market Comison and Lopez (2010). Study argued that with the help of product innovation organization is able to introduce the new products and the quality products into the market, because it improves the quality of the products and due to this it will help the organization to achieve the competitive advantage in the market Comison et al., (2010). With the help of product innovation organization is able to achieve competitive advantage so it helps the organization to protect itself and against the competition threats of the market (Hult et al., 2004). One study reveals that the organization which create product innovation, have positive impact on the performance of the organization in the market (Hernández-Espallardo & Delgado-Ballester, 2009). Study reveals that the organization which established the product innovation, it results that the customer is much associated with that organization and as a result the performance of the organization enhanced (Rhee, Park, & Lee, 2010). Research shows that the small and medium size enterprises are much closer to the customers and there the performance of small medium size enterprises increases due to product innovation, because product innovation causes customer satisfaction (Laforet and Tann, 2006). Research proved that mostly customer wants changes and therefore they prefer small and medium size enterprises , because they fastly changed the products due to their small size, product innovation enhances the customer satisfaction and ultimately the performance of the organization (García-Morales, Lloréns-Montes, & Verdú-Jover, 2007).

2.3 Radical Innovation V/S Incremental Innovation

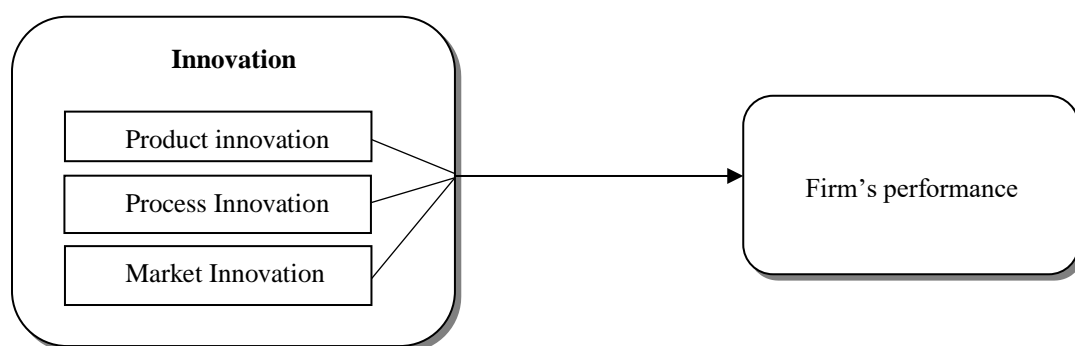
Study reveals that most of the SME'S tries to develop product innovation through incremental way, but large firms mostly prefer radical production (Oke, Burke, & Myers, 2007). Most of SME'S create product innovation by spending more resources on incremental way of product innovation as compared to radical way of product innovation Laforet et al., (2006). In SME's innovation is not a process which develops on routine basis, because Small and medium size enterprises prefer product innovation through internal structure changes (Aragón-Correa, García-Morales, & Córdón-Pozo, 2007). Study proved that the benefits of the innovation which is targeted can be achieved through the available resources which helps or directed the innovation process (Rosenbusch, Brinckmann, & Bausch,

2011). Incremental way of product innovation helps to achieve or entail the changes or innovation in technology; it helps to achieve the customer satisfaction which enhances the performances (Danneels and Kleinschmidt, 2001).

2.4 Development of New Product as a Strategy of Product Innovation

Small and medium size enterprises mostly prefer the development in the product, as compare to the large size enterprises and they undertake the whole process. Small firms have low resources so they are not totally involved in all stages of product development, means changes of whole product, whereas small firms prefer product innovation to increase the quality of the product (Huang & Wang, 2002). In small medium size enterprises there are less employees as compared to the large firm so they have more interaction with customer so they have better chance to understand the customer needs and ultimately enhances the product accordingly, which results in product innovation (Huang & Wang, 2002). Most of small and medium size enterprises focus on developing the new and similar products rather to focus on learning (Mosey, 2005). There is big challenge for the SME'S to develop the strategy that how the firm creates the product innovation, for this purpose dynamic capability (specific knowledge and skills) requires achieving the product innovation. Literature argues that small and medium size enterprises require special knowledge and skills for product innovation (Eisenhardt and Martin, 2000). The most critical part of the product innovation is product design, because it is very important part of product innovation (Perks, Cooper, & Jones, 2005). Product designing is part of product innovation which includes changing the material of the products, usability of the products, selection of vendor, and packing of products. Product designing is also linked with the development of the products (Utterback et al., 2006). Product innovation includes technical, strategic and marketing strategy of the firm (Ravasi & Stigliani, 2012). There is challenge in product designing is limited resources of the firm, especially for small and medium size enterprises, but most of the SME's most focus on minimal design understanding rather than considering the product design as strategic resource (Moultrie et al., 2007).

2.5 Theoretical Framework



2.6 Hypothesis

Hypothesis1: Product innovation has significant positive impact on firm's performance.

Hypothesis 2: Process innovation has significant positive impact on firm's performance.

Hypothesis 3: Market innovation has significant and positive impact on firm's performance.

3. METHODOLOGY

Methodology includes data description and variable description. The present study comprises of quantitative and primary data.

3.1 Target Population of the study

Population means the target market to which we address in the study or form which we collect the data. Sample size is selected from the population. In this research study the population is Small and medium enterprises of Pakistan.

3.2 Sampling Techniques

Probability sampling technique has been used in this study. The type of sampling used in the study is stratified random sampling. *Stratified sampling technique is the process in which population is divided into different sectors, areas and regions which expresses the whole population.* SME's of Lahore are divided into four different areas *Quaid-e-Azam industrial area, Sundar industrial area, Thokar and Riwand.* This sample size represents the population of this study.

3.3 Tools of Data Collection:

Different tools include interviews, questionnaire, personal observation and meetings. Individuals and group have been interviewed. This process also includes the stenography, recording, audio, video recordings and most of the time writing notes. The main purpose of the interview is to check the response of the interview regarding desired objective in the form of the question. Another way of collecting data is questionnaire. It includes set of questions regarding specific topic, questions are both open ended and close ended. Questionnaire is used for collecting the information regarding the demographics and to know the opinion of others regarding specific objective. Questionnaire comprises of close ended questions ranging from strongly agree to strongly disagree. Total questions of this research are 34. There are 10 questions of product innovation and process innovation, 7 questions of market innovation and firm performance also includes 7 questions. There are many types of questionnaires which are being used by the researchers to collect the data. In this study we are using a likert scale questionnaire in which only five options to answer 1 strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 for the strongly agree. The questionnaire is adapted from the previous studies (Osuga, 2016) and (Rosli & Sidek, 2013) on these variables.

4. DATA ANALYSIS

4.1 Demographics

In the following table 1 with the help of questionnaire 4 demographics gender, position, qualification and time/duration of the firms are collected. 191 are males which are 87.6% and 27 are females which are 12.4% of total population. 6 respondent in our data are from executive level 71 are from managerial level and 146 are from staff level. In education 155 respondents are bachelors, 57 are masters, 9 from M.Phil/PHD and 12 are from other degrees. 25 respondents experience level is 1-3 years, 153 respondents experience is 3-5 years and 51 respondent experience is 5-7 years.

Table 1. Demographics

Items	Frequency	Percentage
Gander		
Male	191	87.6%
Female	27	12.4%
Position		
Executive	6	2.7%
Manager	71	31.8%
Officer	146	65.5%
Qualification		
Other	12	5.2%
Bachelor	155	66.5%
Master	57	24.1%
M.Phil / PHD	9	3.9%
Time		
1-3 Years	25	10.9%
3-5 Years	153	66.8%
5-7 Years	51	22.3%

5. RESULTS

5.1 Reliability Analysis

In the following table 2 that shows the results of reliability of the data which is measured by the method of Cronbach's alpha. From our data the value of Cronbach's alpha differs from 0.954 to 0.806 of various variables. With reference of Hinton et al. 2004 three constructs have excellent reliability and other one construct has high reliability. Construct Product innovation (alpha 0.904) process innovation (alpha 0.954) market innovation (alpha 0.806) firm performance (alpha 0.934). Process innovation has an excellent reliability level and others have a high level of reliability. The constructs which have higher the value is more reliable and on other side which have lower the value is low reliable.

Table 2. Measurement of Reliability

Variables	Valid N	No. of Items	Cronbach's alpha
Product Innovation	223	10	0.904
Process Innovation	224	10	0.954
Market Innovation	229	7	0.806
Firm Performance	226	7	0.934

5.2 Factor Analysis

When the reliability of variables is checked, then we check the validity of the construct by using the method of PCA with varimax rotation technique in factor analysis. The results of the PCA are shown in the table 3, 4 and 5. KMO technique and Bartlett's test is used to check that the data is valid for factor analysis. These two techniques confirmed that factor analysis proceed next or not. The factor analysis technique is used to reduce the large amount of the data into small for simple interpretation and understanding. Factor analysis converts 10 product innovation items into just one construct. It makes easier to see the relation of one construct with the other construct instead of all ten items of product innovation with others. It is very necessary for factor analysis that all the dimensions of one construct are correlated.

6. CONCLUSION

The main objective of this study is to find out the impact product innovation, process innovation and market innovation with firm's performance. The main reason of this relation is to find out that how firms can increase its performance. The problem statement is how small and medium size enterprises can increase its performance. With the help of previous studies and researches it is proved that innovation plays an important role in increasing the performance of the firm. So with the help of literature review, this research study determines the innovation and its relation with firm's performance. Innovation can be taken as product innovation, process innovation and market innovation and finds its relation with firm's performance. The target market of this research study is SME's of textile sector of Pakistan. In past firm's performance was measured with different ways such as financial factors and non-financial factors. In past mostly firm's performance was measured on financial factors such as rate of return, profitability, sales. There were rare studies which covers the performance of the firm on non-financial factors. So in this study performance of firm is measured on non-financial factors such as (Employees productivity, Growth of firm, Stakeholders satisfaction and Competitive position of firm)

The data of this study collected through structured questionnaire which was adapted from previous study. After collecting data, the data was analyzed through SPSS software. Different tests were applied to analyze the data. The findings of this study suggests that if small and medium size enterprises of textile industry of Pakistan wants increase its performance they must need to be innovative in its products, processes and market. Findings suggest that if firms create innovation in its products, processes and be innovative in its marketing strategies it will help the firm to increase the productivity of employees, growth of firm, increases the satisfaction of stakeholders and also helpful in increasing and sustaining the competitive position in the market and all these factors ultimately helpful to increase the performance of the firm. In this study Firms performance is measured through (productivity of employees, growth of the firm, stakeholder's satisfaction and competitive position of the firm). The findings of this research study are beneficial for all sectors especially for small and medium firms. It will be helpful for decision making and will contribute towards the progress of the country.

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