

Effect of Innovation Strategies on the Functional Performance of Smes Organizations in (Hassan Industrial City)

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ABSTRACT: *The aim of this study is to identify the Effect of Innovation Strategies on The functional Performance of SMEs Organizations in (Hassan Industrial City). To examine Effect of Innovation Strategies on The functional Performance, I selected SMEs Organizations in (Hassan Industrial City) to be our case study, around (160) questionnaires were randomly distributed to managers in three management levels over (20) SMEs Industries, The returned suitable questionnaires were (142) with (89%) response rate. The main results were product innovation, process innovation and management innovation have significant positive influence on increasing performance, while marketing management hasn't significant positive influence. I recommended that Top management should concentrate on innovative ways on dealing with their employees and management methods, Ensure that the organization's message is structured to be consistent with the organization's objectives. Firms should offer access formal and informal training programs that contribute to their creativity.*

KEYWORD: *Innovation Strategies, functional Performance, SMEs Organizations.*

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I. INTRODUCTION

An innovation strategy is a plan to grow market share or profits through product and service innovation. When looking at innovation strategy through a jobs-to-be-done lens, we see that an effective strategy must correctly inform which job executor, job, and segment to target to achieve the most growth, and which unmet needs to target to help customers get the job done better. An innovation strategy is about creating winning products, which means products that are in an attractive market, target a profitable customer segment, address the right unmet needs, and help customers get a job done better than any competing solution. Only after a company produces a winning product or service should it consider what activities are needed to deliver that product or service.

To formulate an effective innovation strategy, a company must know all its customers' needs, which needs are unmet, and what segments of customers exist with different unmet needs. Innovation plays a huge role in how products are created. An innovation strategy is a plan used by a company to encourage advancements in technology or services, usually by investing money in research and development activities.

An innovation strategy is essential for companies that want to gain competitive advantage. An effective innovation strategy should be inspiring and add something unique to the product or service being developed. As a company, you want to increase the value of a current product or create something brand new that will draw the consumer in.

Performance is completion of a task with application of knowledge, skills and abilities[1]. In work place, performance or job performance means good ranking with the hypothesized conception of requirements of a task role, whereas citizenship performance means a set of individual activity/contribution that supports the organizational culture[2, 3]. In the performing arts, a performance generally comprises an event in which a performer or group of performers present one or more works of art to an audience. Usually the performers participate in rehearsals beforehand.

II. LITERATURE REVIEW

In an environment where uncertainty and turbulence are increasing on a daily basis, adjusting to change and conditionally, being a leader for change requires innovation strategy. Innovation strategy is basically a strategic flexibility approach and represents the firm's strategy in adjusting to current conditions and not showing the strategic gap in any case. What is the main purpose of the firm within this scope? Which opportunities have strategic importance in reaching the main purpose? Which threats or barriers prevent reaching the main purpose? Which weakness may be overcome by which opportunities? Questions like these, when combined with market dynamism,

may only be answered with innovation strategy. Innovation strategy, in its simplest terms, is choosing the most proper one amongst possible alternatives and developing the most convenient action type possible in the current conditions. When something happens out of the plan, innovation strategy leads the activities so that the enterprise gets closer to the determined goal. Innovation strategy which frames strategic management is the activity that involves the required policies and processes, determining a new location and drawing a route that will end with the same goal [4].

Innovations have been studied from many different dimensions such as economics, business, technology, finance and management. The prevalent discussion among practitioners of innovation has created many approaches to conceptualize innovation. Innovation can be referred to as an act of introducing something new (process of innovation); or something introduced newly (product; or object). For example, Carol and Mavis [5] described innovation as an idea, practice or object that appears as recent by people or the adoption unit. Organizational innovation has been a dominant factor in maintaining worldwide competitiveness. It fuels organizational growth, drives future success. There are many important competition tools that firms use to ensure competitive advantage; the factors such as product and service quality, reducing costs, creating innovation, sustainability, stabilization and innovative strategies have an important part while enterprises try to ensure competitive advantage. Innovation is also a long-term performance indicator which is integrated with concepts like change, creativity, improvement and risks taking for the firms, competition mostly shapes around the customer. There are various definitions of innovation as a process. Wan et al. [6] have defined innovation as a process that involves generation, adoption and implementation of new ideas or practices within the organization. Tidd et al. [7] consider innovation as a process of turning opportunity into new ideas and of putting these ideas into widely used practice. As shown by the study done by Aragón-Correa et al. [8], innovation is based on multiple and simultaneous influences of individual and collective determinants. These determinants are introduced next:

First: Culture and leadership are one of the relevant internal conditions of innovation [8, 9]. According to Smith et al. [10], culture relates to the values and beliefs of the organization and how the effect of the ability to manage innovation, the motivation from a leadership supporting innovation, the willingness to exchange knowledge, and the targeted promotion of innovators within the firm. The ability to lead, direct, and support the creation and sustaining of innovation behaviors is important for a firm [11]. The importance of leadership style lies in the opportunities of the leader to directly decide to introduce new ideas into an organization, set specific goals, and encourage innovation initiatives from employees [8, 12]. This is because leadership that fosters innovation enables setting task boundaries, sharing information, obtaining resources, instilling a positive attitude, and a leadership style that keeps the employees challenged and focused [13].

Second: Internal processes: The structure of a firm oriented towards innovation differs from other firms regarding decision-making processes and formalization. In such a dynamic context, companies face the challenge to find the right balance between control and flexibility and adaptability. After all, there are tasks that need to be clearly managed and controlled [14, 15]. This means providing sufficient freedom to allow the employees to explore creative possibilities, they also propose that the flexibility and openness of structures help to encourage new idea generation.

Third: An appropriate work climate is crucial for innovation. Climate creates a specific mode of beliefs, attitudes, and behaviors. Van Hemert et al. [16] showed that openness towards knowledge sharing is important in reinforcing innovation.

Fourth: Firms operate in a highly dynamic and rapidly changing environment where they need to regenerate in order to survive. Firms need to be tolerant of the mistakes that will occur and allow for recovery and learning from failures [6, 17].

Fifth: The creativity and innovation capability of employees [18, 19] suggest that important issues for an employee to be innovative are the belief that innovation is important, willingness to take risks, and willingness to exchange ideas. People who have creativity and intrinsic motivation (as well as skills) for their work will be favorable for creating a work environment that supports the creation of innovations.

Olughor (2015) investigated how innovation affects business performance in small and medium-sized enterprises (SMEs) in an up-and-coming market, like Nigeria. Data was collected from 200 respondents of six SMEs companies based in Nigeria. Innovation was measured using the OECD Oslo scale (2005). The study demonstrated that there is a high correlation among factors used to measure innovation. And secondly, innovation was found to influence business performance [20].

Kalay and Lynn (2015) investigated the impact of innovation strategy, organizational structure, innovation culture, technological capability and customer and supplier relationships, which appear in the literature as strategic innovation management practices in business enterprises, on firm innovation performance. In this context, data collected from 132 managers at 66 firms operating in the manufacturing sector in the TRB2 zone of Turkey were analyzed. The partial least squares structural equation modeling (PLS-SEM) method was used to test hypotheses of study. The analyses revealed that innovation strategy, organizational structure and

innovation culture significantly increased firm innovation performance. However, no significant impacts of technological capability and customer and supplier relationships on firm innovation performance were determined[21].

Pelser (2014) investigated innovation management practices in technology intensive industries and to explore their relationship to company performance. A non-probability, judgment sample of companies listed on the Johannesburg Stock Exchange (JSE) were taken. The study makes a contribution to the field of strategic management research by integrating the dimensions of several previous studies, to derive a more comprehensive taxonomy of innovation strategy dimensions. Two distinct innovation strategy factors obtained with the analysis were proved to positively influence the company performance dimensions and were classified as New Product Innovation and Process Innovation factors. The results show that innovation strategy choices can significantly affect company performance. It thereby indicates which of the underlying dimensions have the strongest relationship with company performance. From an industry perspective, the greatest significance of these findings may be that they accentuate the importance of innovation policy in strategic management. The substantial differences in performance associated with the dimensions do not necessarily indicate that a given company should choose a particular innovation strategy, but rather indicates that innovation policy decisions may have a substantial leverage on a company's performance and should be analyzed and exercised with care[22].

Cheng et al (2014) investigate inter-relationships among three types of eco-innovation (process, product, organizational) and their relative impact on business performance. Using structural equation modeling with 121 samples collected from Taiwan Environmental Management Association, we find that eco-organizational innovation has the strongest effect on business performance. Additionally, eco-process and eco-product innovations partially mediate the effects of eco-organizational innovation, and eco-product innovation mediates eco-process innovations' effects on business performance. Business performance is directly and indirectly affected by eco-organizational, eco-process, and eco-product innovations. The findings suggest that, in order to develop effective eco-innovation programs, managers must understand the interdependence and co-evolutionary relationships between different types of eco-innovation. Overall, this study extends the discussion of innovation to the area of environmental innovation or eco-innovation[23].

Hervas-Oliver et al (2014) contributed to the study of process innovation as a growth strategy for SMEs, enriching and complementing the well-researched debate about product innovation. Thus, under researched process innovation strategies are analyzed, and their antecedents and innovative performance implications explored. The results show that process innovation strategy is mainly shaped by the acquisition of embodied knowledge, which acts as a key mechanism for countering firms' weak internal capabilities. As process innovation is mainly production oriented, performance consequences are measured using the production process indicators of cost reduction, flexibility and capacity improvement, avoid in traditional misguided measures based on sales, which are more product oriented. Drawing on information for 2, 412 firms taken from Spanish CIS data, our results suggest that R&D efforts are not positively related to production process performance, but that the latter is improved by the synchronous co-adoption of organizational and technological innovation. SMEs conducting a process innovation strategy rely heavily on the acquisition of external sources of knowledge in order to complement their weak internal innovative capabilities, and their pattern of innovation shows clear-cut differences from traditional R&D-based product innovation strategies. The article uses a resource-based view framework to generate hypotheses[24].

III. OBJECTIVES OF THE STUDY

The aim of this study is to identify the effect of innovation strategies on the functional Performance in SMEs Organizations in (Hassan industrial city). More specifically this research has four objectives:

- To explore the effect of product innovation strategy on the functional performance.
- To explore the effect of process innovation strategy on the functional performance.
- To explore the effect of marketing innovation strategy on the functional performance.
- To explore the effect of management innovation strategy on the functional performance.

IV. DATA AND METHODOLOGY

To examine the effect of innovation strategies on the functional performance on SMEs organizations in (Hassan industrial city). I selected (20) SMEs Organizations in (Hassan industrial city) to be my empirical study in this research.

IV.I. Data

A questionnaire or sample survey is the primary tools of data collection. That was divided into (2) main sections. Section 1 measured the respondents' demographic background. Sections 2 measured the respondents' views toward the effect of innovation strategies on the functional performance as well as first variable product

innovation (6 items), process innovation (6 items), marketing innovation (6 items) and management innovation (6 items). The independent variable is functional performance (7 items). Each item was measured in terms of a five points rating scale from 1 (*strongly disagree*) to 5 (*strongly agree*).

IV.II. Methodology

The sample was drawn from three management levels within SMEs Organizations in (Hassan industrial city) around (160) questionnaires were randomly distributed to managers in these three levels. The returned suitable questionnaires were (142) with (89%) response rate.

V. HYPOTHESES

Based on the objectives of the study, the following hypotheses will be tested.

Hypothesis 1: **process innovation** has a significant positive influence on increasing functional performance.

Hypothesis 2: **product innovation** has a significant positive influence on increasing functional performance.

Hypothesis 3: **marketing innovation** has a significant positive influence increasing functional performance.

Hypothesis 4: **management innovation** has a significant positive influence on increasing functional performance.

VI. Case and Data Analysis:

Tables one to four present the descriptive statistics for the four study variables (**Product innovation, process innovation, marketing innovation and management innovation**). statements (1-6) represent product innovation as independent variable, statements (7-12) represent process innovation as independent variable, statements (13-18) marketing innovation as independent variable, statements (19-24) represent management innovation as independent variable, and statement (25-31) represent Performance as dependent variable.

VI.I. Process innovation

The following tables show the results of the empirical test. Table 1 through Table 5 is outputs of SPSS Statistics software. As shown in table (1) the highest mean was item #5 "The necessary resources are identified which contribute to the improvement of the creative process" (4.02) with (0.73) Standard deviation (S.D), while item #3 "The organization's message is structured to be consistent with the organization's objectives" scored the lowest mean (3.37) with (0.92) S.D.

Table (1) Process innovation (n=142)

No.	Statement	Mean	S.D
1	Employees have the creative ability to find quick solutions to business problems.	3.89	0.81
2	Employees are given the work that they can do it with creativity.	3.71	0.72
3	The organization's message is structured to be consistent with the organization's objectives	3.37	0.92
4	Business needs are understood as the basis for the firm's creative work.	3.45	1.01
5	The necessary resources are identified which contribute to the improvement of the creative process.	4.02	0.73
6	The processes are determined by measuring the real results with the planning.	3.94	0.78

VI.II. Product Innovations;

As shown in table (2) the highest mean was item #10 "Employees have the technology to develop the product" (4.07) with (1.03) Standard deviation (S.D), while item #9 "Employees can access formal and informal training programs that contribute to their creativity" scored the lowest mean (2.91) with (0.68) S.D.

Table 2: Product Innovations (N=142)

No	Statement	Mean	S D
7	Employees have the ability to develop creative ideas for product development.	3.87	0.85
8	New relationships with customers contribute to the development of innovative product activities.	3.64	0.97
9	Employees can access formal and informal training programs that contribute to their creativity.	2.91	0.68
10	Employees have the technology to develop the product.	4.07	1.03
11	High quality raw materials contribute to the development of innovative products.	3.16	0.81
12	Quantitative needs of existing products are determined.	3.35	0.99

VI.III. Marketing Innovations;

As shown in table (3) the highest mean was item #15 "The firm offers products related to its core competencies and is in line with market realities" (4.13) with (0.91) Standard deviation (S. D), while item #18 "Firm is centered on highly complex product for B2B market" scored the lowest mean (3.34) with (0.92) Std.

Table 3: Marketing Innovations (N=142)

No	Statement	Mean	S D
13	Identify the required root changes as customer desired.	3.75	0.94
14	The firm always determines the capabilities of its competitors and provides competitive advantage.	3.56	0.76
15	The firm offers products related to its core competencies and is in line with market realities.	4.13	0.91
16	Firm competes in very dynamic marketing in which stability represents a risk.	4.01	1.03
17	Firm is focused on new products for B2B context in a highly regulated environment.	3.81	0.95
18	Firm is centered on highly complex product for B2B market.	3.34	0.92

VI.IV. Management Innovations;

As shown in table (4) the highest mean was item #21 “Management innovation has fully integrated in the business models are connected with the vision and mentality of firms” (3.98) with (0.73) Standard deviation (S.D), while item #23 “Management seeks to work in new ways to achieve its objectives” scored the lowest mean (2.96) with (0.88) S D.

Table 4: Management Innovations (N=142)

No	Statement	Mean	S D
19	Management always seeks flexibility and the ability to react to market changes.	3.24	0.81
20	Firm can't only create but also develop and commercialize innovative outputs.	3.87	0.92
21	Management innovation has fully integrated in the business models are connected with the vision and mentality of firms.	3.98	0.73
22	The leadership and organizational culture of the organization contributes to an increase in the creative style of management.	3.57	1.05
23	Management seeks to work in new ways to achieve its objectives.	2.96	0.88
24	The management is involved in making decisions with employees to increase the creative process	3.31	0.79

VI.V. Performance;

As shown in table (5) the highest mean was item #30 “Employees have the ability and willingness to innovation work” (4.09) with (0.91) Standard deviation (S.D), while item #31 “Employees have the required technical and cognitive skills” scored the lowest mean (3.51) with (1.12) S.D.

Table 5: Performance (N=142)

No	Statement	Mean	S D
25	The functional system effectively determines the employee's strengths and weaknesses.	3.78	0.84
26	The employee is briefed on the results of his annual assessment to identify his strengths and weaknesses.	3.94	1.05
27	Through the Performance Appraisal System, the firm identifies the training needs of the employees.	4.06	0.89
28	Employees are evaluated on the basis of objective and scientific criteria.	3.72	0.71
29	Firm renewal the employee development programs annually.	3.67	0.97
30	Employees have the ability and willingness to innovation work.	4.09	0.91
31	Employees have the required technical and cognitive skills.	3.51	1.12

VI.VI. Correlations among Variables

Table (6) presents the zero-order correlations and for all of the study variables. The results light out that process innovation is positively related with functional performance, were significantly and positively correlated ($r > 0.395$, $p < .03$) and this result disagree with Kalay&layanstudied[21]. Product innovations is positively related with functional performance were significantly and positively correlated ($r > 0.517$, $p < .02$) and this result agree with olughorstudied[20]. Marketing Innovations hasn't a significant positive effect on increasing functional performance ($r > 0.856$, $p < .07$) and this result agree with Kalay&layan[21]. Management innovations is positively related with functional performance, weresignificantly correlated ($r > 0.684$, $p < .04$) and this result agree with Pelser studied[22] andHervas&Oliver et al[24].

Table (6) Descriptive Statistics and Correlations

		Functional Performance	Process innovation	Product Innovations	Marketing Innovations	Management Innovations
Performance	Correlation	1.00				
	Sig	0.00				
Process innovation	Correlation	0.395**	1.00			
	Sig	0.03				

Product Innovations	Correlation	0.517**	0.348**	1.00		
	Sig	0.02	0.02			
Marketing Innovations	Correlation	0.856**	0.671**	0.426**	1.00	
	Sig	0.07	0.03	0.03		
Management Innovations	Correlation	0.684**	0.856**	0.534**	0.451**	1.00
	Sig	0.04	0.02	0.04	0.02	

Notes:

- **Scale: 5-point Likert-type scale.**
- *p < .10; ** p < .01; *** p < .001.

With regard to the specific hypotheses, we found:

- Hypothesis 1: product innovation has a positive significant positive influence on increasing performance in Hassan industrial city.
- Hypothesis 2: process innovation has a significant positive influence on increasing performance in Hassan industrial city.
- Hypothesis 3: marketing innovation hasn't a significant positive effect increasing performance in Hassan industrial city.
- Hypothesis 4: management innovation has a significant positive effect on increasing performance in Hassan industrial city.

VI. CONCLUSION AND RECOMMENDATIONS

According to data analysis I found that there were many results, the most important were;

1. The necessary resources are identified which contribute to the improvement of the creative process.
2. Employees have the technology to develop the product.
3. The firm offers products related to its core competencies and is in line with market realities.
4. Management innovation has fully integrated in the business models are connected with the vision and mentality of firms.
5. Employees have the ability and willingness to innovation work.
6. Product innovation, process innovation and management innovation have significant positive influence on increasing performance in Hassan industrial city.
7. Marketing innovation hasn't significant positive influence on increasing performance in Hassan industrial city.

The following recommendations are suggested:

1. Top management should concentrate on innovative ways on dealing with their employees and management methods.
2. Ensure that the organization's message is structured to be consistent with the organization's objectives.
3. Firms should offer access formal and informal training programs that contribute to their creativity.
4. Firms should center on highly complex product for B2B market.
5. Management should work in new ways to achieve its objectives.
6. Employees should have the required technical and cognitive skills.

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