

## Innovation: The Core That Triggers SMEs Performances

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### ABSTRACT

More small enterprises make full use of innovation to obtain the best performance in business operations. As a result, SMEs are attaching more importance to the combination of innovation strategy and enterprise development strategy. In addition, most of the Romanian SMEs have not regarded the necessity of innovation strategy, and even those enterprises that are implementing innovation process have difficulty in explaining, systematically, its value for SMEs performance. The result shows that innovation in SMEs play an important role in the economic growth development and it is critical to establishing and extending competitive advantage. It is expected that this study result can help Romanian SMEs find the right direction for innovation strategy and have a more specific understanding of the improvement in their performance.

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### Introduction

In the past major decade, small or medium enterprises have become economic or social organizations that constantly create new jobs, more often for qualified persons with proper expertise. To stay ahead of competitors, providers must have a bundle of dynamic capabilities to constantly reshape their activities and the way they operate. However, in discussions on innovation there is a tendency to associate it with small, technologically advanced firms.

Zairi mentioned "what makes innovation challenging is the fact that it is very difficult to agree on a common definition, and also to decide which firms are the most innovative and how to quantify innovation activity".

Lankhuizen, and Woolthuis concluded that the knowledge creation, knowledge transfer play the crucial role in the success of innovation and ultimately of economic growth. Thus, knowledge and information management has the potential to be a catalyst for innovation within Romanian small organizations. In addition to the direct effects on Romanian SMEs' performance, we can associate with the productivity of the innovation process in turning innovation inputs into innovation outputs in SMEs. Also, the financial dimension is viewed as the most extensively used followed by customer satisfaction, quality product, innovation and learning and resource utilization.

Increased innovation also improves product quality. In this respect, a major strategic priority is the need for SMEs to focus on products and services that have implications for business and innovation support policies. According to Laforet and Tann, the capacity to innovate is a strategic tool for those firms that want to maintain their competitive position in the marketplace. On the other hand, providing innovative products with enhanced utility may help firms strengthen their competitive position in home as well as international markets.

Rosenbusch et al. have identified several factors that affect the relationship between innovation and SME performance: characteristic of entrepreneur and SMEs, management and know-how, products and services, the way of doing business and cooperation, resources and finance, and external environment.

The objectives of this study included: (1) to be aware of the perception and implement a situation of innovation strategy in the Romanian SMEs; (2) to discuss the relationships between the innovation strategy in the Romanian SMEs and the increasingly their performance; and (3) to explore the relationship between technology, competitive advantage and performance of the Romanian SMEs. This study is designed specifically to examine the relationship between innovation and SME performance.

This research focuses on two study questions: (1) Is importance to improve innovation potential for triggers SMEs performances? (2) In what ways does the development of an innovative strategy influence the performance of SMEs?

This study also surprised that innovation process has become the biggest capital investment project for Romanian SMEs. Through actual situations and theoretical discussion, this study provides practical suggestions and hopes it can help with the clarification of innovation strategy's direction.

The conclusion emphasizes that the factors such as the age of the firm, the type of innovation could help build the capacities and capabilities of the SMEs to attain growth and competitive advantage.

Based on the results of this analysis, we can affirm that the relationship between innovation and SME performance is positive and is stronger in younger firms than in older firms.

## **Theoretical Background and Research Methodology**

This study contains two main constructs, namely innovation strategy and SMEs performance. The realization of SMEs performance by implementing innovation strategy is what enterprises are concerned about. This study discussed whether the implementation of innovation strategy has a significant influence on SMEs performance.

This study aims to testify the following hypotheses by empirical analysis:

H1: Innovation strategy has a positive correlation with SMEs performance;

H2: The implementation of innovation strategy has a significant influence on SMEs performance;

H3: The relationship between innovation and SME performance is positive and is stronger in younger firms than in older firms.

This study took Romanian SMEs as the respondents and used a random sampling. Research was carried out from 01/03/2014 until 31/08/2014 and a total of 119 questionnaires were distributed and 82 were collected, giving a return rate of 69%. Among the online collected questionnaires, 15 were invalid, so there were 67 valid questionnaires.

## **Results**

The values of Cronbach's  $\alpha$  of the collected questionnaires in this study were in the range from 0.560 to 0.598 that all are above 0.47, as seen in Table 1.

**Table 1: Reliability Analysis**

Items	Dimensions	Cronbach's Alpha	Cronbach's Alpha (as a whole)
Innovation strategy	Strategic alignment	0.565	0.577
	Value delivery	0.598	
	Risk management	0.564	
	Resource management	0.567	
	Performance measurement	0.562	
SMEs performance	Financial dimension	0.561	
	Customer dimension	0.560	
	Dimension of internal process	0.563	
	Dimension of learning and growth	0.562	

The result shows that the validity of this study was 0.572 and  $5.33 \leq KMO < 0.6$ , which was significant. Therefore, this questionnaire had good validity.

This study adopted a regression analysis to measure the correlations between the five dimensions of innovation strategy and SMEs performance. The study results also showed that the values of p for innovation were all less than 0.05; the confidence interval was 95%. As a result, H1 and H2 were all acceptable.

In addition this study adopted a One-Way ANOVA to compare Romanian SMEs implementing innovation strategy with those that have not implemented innovation strategy.

The significance of the two-tailed test was 0.000, which is less than 0.05, as seen in Table 2. As a result, this study proved that the relationship between innovation and SME performance is positive and is stronger in younger firms than in older firms ( $F = 18,855$ ,  $p = 0.000$ ).

**Table 2: SMEs performance – ANOVA**

Innovation strategy	Quadratic sum	Average quadratic sum	F	Significance
Interblock estimation	4.685	4.685	18,855	0.000
Linear item	4.685	4.685	18,855	0.000
Weighting	4.685	4.685	18,855	0.000
Intergroup	11.761	0.165		
Sum total	16.446			

Meanwhile, the averages demonstrated that the SMEs performance of enterprises implementing innovation strategy was higher than for those that had not carried out innovation strategy ( $2.4412 > 1.9959$ ). Therefore, H3 was supported.

## Conclusions and Suggestions

This study investigated the current situation of Romanian SMEs' implementation of innovation strategy and gave a reference for enterprises that may implement innovation strategy in the future.

When the enterprise's strategy is the same as its innovation strategy, the innovation objective is in accordance with the enterprise objective. According to the results, the content and process of the innovation strategic planning is a resource of enterprises' competitive advantages and the process is positively correlated to enterprises' financial performance. Through innovation resources required by proper investment, utilization and distribution are essential for enterprises to obtain SMEs performance.

The investigation of this study proved that the average SMEs performance value of Romanian SMEs which have implemented innovation strategy is significantly higher than that of those who have not implemented innovation strategy.

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