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Link Between Innovation Strategy, Innovation Culture, and SMEs Innovation Performance in Indonesia

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ABSTRACT

This study aims to investigate the impact of innovation strategy on small and medium-sized enterprises (SMEs), focusing on the mediating role of innovation culture. There needs to be more prior literature on innovation performance in small and medium enterprises (SMEs) in Indonesia, particularly in terms of serving as benchmarks for assessing SME success. A study utilizing a questionnaire was undertaken to gather data from small and medium-sized enterprises (SMEs) located in Central Java, Indonesia. One hundred fifty surveys were collected and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The investigation findings indicate that both the proactive and the growth strategies have a good impact on the culture of innovation. Innovation culture was found to have a positive effect on innovation performance. Even though the culture of innovation mediates the relationship between proactive strategy and innovation performance, innovation culture still needs to be proven to mediate the relationship between growth strategy and innovation performance.

Keywords: Growth Risk Orientation Strategy, Innovation Culture, Innovation Performance, Proactive Strategy, SMEs

INTRODUCTION

Small and medium companies (SMEs) have a significant role in the overall economic output of a nation (Anwar, Rehman, & Shah, 2018). Small and Medium Enterprises (SMEs) have a substantial and noteworthy part in the economy of Indonesia. The presence of SMEs is a fundamental aspect of the Indonesian economy (Laksana, Apriliado, & Kusmantini, 2022). Like many other emerging economies, small and medium companies (SMEs) play a significant role in driving the economic progress of Indonesia. These corporations play a crucial role in stimulating the nation's economic activity, generating a noteworthy contribution to Indonesia's gross domestic product, surpassing 50%. The firms above have a significant presence, accounting for around 99% of the enterprises across different sizes. Simultaneously, they also contribute to 92% of job generation.

Nevertheless, throughout the fourth industrial revolution, small and medium-sized enterprises (SMEs) encountered formidable competition (Helmy, Adawiyah, & Banani, 2019). In response to competitive pressures, organizations often employ innovation as a strategic approach to establish a durable competitive edge, enhance prospects for development, and optimize financial gains. The SME sector is competitive, encouraging business entities to distinguish their products and services. Consequently, SMEs feel driven to provide innovative products that enhance and assist core company operations.

The present study examines the relationship between innovation strategy and the development of an innovation culture. The expectation is that implementing an innovation strategy will positively impact the development of an innovation culture, ultimately leading to improved inventive performance within the SME sector in Indonesia. This study presents a framework that addresses the complex challenges surrounding the innovative performance of SMEs in Indonesia.

LITERATURE REVIEW

Innovation offers significant value for enterprises, not just due to its creative impetus. Many entrepreneurs understand that in order to achieve enduring success, it is imperative to cultivate a robust culture of innovation (Dobni, 2008). To enhance innovation performance, companies have the potential to integrate a range of attitudes, concepts, and behaviors that are applicable throughout the whole business, along with leveraging past experiences (Alassaf, Dabić, Shifrer, & Daim, 2020). In bolstering industry resilience, innovation is a strategic tool that aids company professionals in their endeavors (Shaferi, Laksana, & Pinilih, 2022). Integrating collaborative efforts in innovation influences the resilience of businesses, empowering management to navigate the recovery process effectively.

The existing literature on the drivers of innovation may generally be categorized into two main perspectives. The market-based approach posits that market conditions have a significant role in enabling or constraining the degree of innovation undertaken by a corporation. The primary concern is the company's capacity to identify and capitalize on prospects inside the industry. Certain firms possess the capacity to examine and explore their surrounding environment proficiently. The resource-based view posits that there are more reliable foundations for devising innovation strategies in a dynamic and stable market than relying on a market-driven orientation.

In contrast, a company's internal resources offer a more stable framework for cultivating its innovation initiatives and market structure. The innovative resources-based view emphasizes the company's many resources, capabilities, and talents. Advocates of this theoretical framework claim that an organization may attain a durable competitive advantage by possessing valuable, rare, and non-replicable resources.

According to (Janićijević, 2012), when an organization's strategy develops, it becomes necessary for managers to establish or adapt procedures and structures to establish and strengthen the appropriate culture required for the efficient implementation of the chosen strategy. Hence, the present study aims to investigate two specific innovation methods, namely proactive creativity strategy and growth risk orientation strategy, designed to foster and facilitate the generation of unique ideas and the creative process. Wang and Ahmed (2004) define organizational innovation as the whole capacity of an organization to deliver novel items to the market or explore new markets by integrating strategic orientation with inventive behavior and procedures. Damanpour, Walker, and Avellaneda (2009) assert that innovation is characterized by novelty within the adopting organization. Meanwhile, Baregheh, Rowley, and Sambrook (2009) define innovation as a multi-stage process through which organizations convert ideas into new or improved products, services, or processes to advance, compete, and successfully distinguish themselves in their respective marketplaces.

Based on the definitions mentioned above, a commonality can be observed, namely that innovation entails the creation of novel entities or enhancements to preexisting ones. However, the disparity lies in the aspect of focus. However, innovation's primary objective is to accomplish a company's goals. We propose:

H1. There is a positive impact of a proactive creativity strategy on innovation culture.

H2. There is a positive impact of a growth-risk orientation strategy on innovation culture.

Innovation offers significant value for enterprises, not just due to its creative impetus. Numerous entrepreneurs understand that for success, it is crucial to foster a strong culture of innovation (Dobni, 2008). To enhance innovation performance, companies have the potential to integrate a range of attitudes, concepts, and behaviors that are applicable throughout the whole business, along with leveraging past experiences (Alassaf, Dabić, Shifrer, & Daim, 2020). Moreover, it has been shown that firms that adopt a culture of innovation will undergo notable and incremental transformations in their business operations (Hanifah, Halim, Ahmad, & Vafaei-Zadeh, 2019). Furthermore, it has been suggested by (Michaelis, Aladin, & Pollack, 2018) that organizational performance will be enhanced. Establishing a strong organizational culture is crucial for an organization or corporation's effective functioning and success.

Organizational culture, as a set of values, encompasses the beliefs and attitudes held by employees, serving as the foundation for their behaviors and attitudes. The attitudes and beliefs that individuals hold. The crystallization of organizational principles serves as a guiding force for employees, shaping their thoughts, actions, and behaviors in alignment with the attitudes and values that are held as fundamental. According to Muis, Jufrizen, and Fahmi (2018), the impact of culture on attaining organizational objectives may be observed. The concept of organizational culture encompasses the fundamentals principles and principles, encompassing ideas, norms, and values, that form the central features of an organization. The alignment of culture with corporate strategy is seen as a significant asset, as it supports the achievement of both effectiveness and efficiency (Sundararajan et al., 2020).

(Dobni, 2008) performed a study that identified many critical components of the culture of innovation. These components include the aspiration for innovation, the presence of a supportive infrastructure, the adoption of market-influencing behaviors, value orientation, and the context of innovation. The researcher discovered that fostering a culture of innovation is vital for enhancing corporate performance. Consequently, to effectively manage a firm, it is essential to establish an organizational culture. The present study reveals that the performance of creative SMEs may be enhanced by fostering a culture of innovation within the organizational framework. This finding underscores the significance of cultivating an environment that promotes innovation to improve performance outcomes.

The cultivation of an atmosphere that fosters the development of creative practices inside ordinary business activities is deemed significant for organizations (Halim, Ahmad, & Ramayah, 2019; Hanifah, Halim, Ahmad, & Vafaei-Zadeh, 2019). Dobni (2008) posits that innovation culture comprises many essential components. The elements encompassed in this context consist of the objective to cultivate innovation, the establishment of a conducive infrastructure to facilitate innovation, the adoption of suitable behaviors to influence the market, the harmonization of values with creative practices, and the establishment of an environment that promotes the implementation of novel ideas. Hence, it has been determined that a culture fostering innovation plays a crucial role in enhancing organizational performance. Hence, a prosperous commercial enterprise is crucial for fostering the organizational culture.

Given the abovementioned factors, SMEs in Indonesia must embrace a management approach that fosters and maintains a culture of innovation by promoting active engagement. Consequently:

H3. There is a positive impact of innovation culture on innovation performance.

The SMES owner/manager may encounter challenges in fostering creativity independently. Encouraging people to be inventive is a more successful approach when undertaken by the owner or management. To enhance the performance of innovation, the owner or management must cultivate a culture of innovation inside the firm. The empirical research conducted by (Kim & Yoon, 2015) has provided evidence to support the notion that leadership employing proactive, creative strategies correlates with workers' views of an innovative organizational culture within their respective work units. Moreover, prior research conducted by (Giaccone & and Magnusson, 2022) has demonstrated that the risk-taking approach adopted by managers directly impacts innovation performance. Additionally, it affects establishing and sustaining a specific aspect of the organizational climate that facilitates employees in dealing with the inherent risks associated with engaging in innovative behaviors.

Hence, SMEs must cultivate cultural norms encompassing proactive creativity and a growth risk orientation among their staff to contribute to product development endeavors, effectively bolstering innovation performance. Based on the considerations above, it is plausible to:

H4. Innovation culture mediates the link between proactive strategy and innovation performance.

H5. The link between growth-risk orientation strategy and innovation performance is mediated by innovation culture.

RESEARCH METHOD

The present study was undertaken by administering surveys to owner-managers within the creative industry in Kebumen, Banyumas, and Cilacap Central Java. This research primarily examines the exporting SMEs about trading, food and drinks, craft, and batik. The survey encompassed a cohort of 150 owner-managers. The survey of this study was conducted with the assistance of consultants from the Office of SMEs and Cooperatives in Kebumen, Cilacap, and Banyumas Regency.

The study model's variables were assessed by using a survey instrument using a 5-point Likert scale, ranging from “strongly agree” to “strongly disagree”. The measurement of characteristics related to innovation strategy was designed by (Borch & Madsen, 2007). The innovation culture variable is measured using a scale from Dobni (2008). In addition, the variable of innovation performance is measured using (Johannessen, Dolva, & Kolvereid, 1997).

RESULTS

The data analysis in this study employed the Smart PLS version 3.0 software. Data analysis is typically separated into two distinct stages: the assessment of the measurement model and the assessment of the structural model. The model measurement test, sometimes called the outer model, delineates the association between latent variables and their corresponding indicators. The present study employs the PLS Algorithm technique to conduct an outer model test. Validity and reliability testing are employed in the analysis step of the outer model. The subsequent phase involves the examination of the structural model or internal framework.

A model forecasts causal connections, specifically those involving latent variables or factors that are not readily measurable. The inner model, also known as the structural model, elucidates the causal connections between latent variables, which have been constructed on the foundation of the underlying theory. The inner model of the structural model test was assessed using Bootstrapping processes. Experiments were conducted on the structural model to investigate the correlation between latent components. The study sample was derived from the Creative UKM database, consisting of 150 respondents, with representation from each element. The study dataset has a total of 150 data points that are available for analysis.

Most participants in the study were employed in the service sector (4%), food and beverage industry (13%), furniture industry (9.7%), and the most prevalent trade, woven crafts (53.3%). In the sample of SMEs that were polled, it was found that all participants held the positions of owners and managers. Of these participants, 69 percent were male, while the remaining 31 percent were female. The majority of businesses have a duration of 1-3 years (33.9%), followed by 4-6 years (14.4%) and 7-10 years (33.3%). The remaining duration is 10 years, and the remaining proportion is 19 percent. Concerning the educational attainment of the respondents, around 42.1 percent possess a high school diploma, while 30 percent have a bachelor's degree. Furthermore, 20.7 percent have obtained a D3 diploma, and 4.3 percent have achieved a master's degree or higher. The remaining portion of respondents own a primary school diploma. The user has provided two numbers: 2 and 9. Most establishments have a workforce size ranging from 4 to 7 people, accounting for 33.3 percent. Meanwhile, 40 percent of establishments have a workforce size ranging from 8 to 10 employees. Merely a minority of entities with a workforce exceeding 11 individuals, comprising around 28.7 percent. The majority of participants, comprising 63 percent, report a monthly turnover of less than 50 million.

The turnover within the range of 51-100 million rupiahs accounts for 23 percent, while only a limited proportion of monthly turnovers over 100 million rupiahs have been allocated to export activities, namely 14 percent,

Outer Model

Evaluation of the outer model or measurement model includes an assessment of the outer loading, validity, and reliability of the items and constructs studied. Validity is seen in two ways, namely convergent validity and discriminant validity. The initial step in evaluating the outer model involves examining the outer loading value associated with each indicator that assesses the construct. According to (Hair, Howard, and Nitzl, 2020), choosing a loading factor value that is more than 0.70 is recommended.

The subsequent phase involves evaluating the dependability of internal consistency by examining the composite reliability and Cronbach alpha coefficients. According to (Hair, Howard, and Nitzl, 2020), a range of 0.70 to 0.90 represents a satisfactory level of dependability.

The third phase involves the evaluation of convergent validity. Convergent validity refers to the degree to which a concept effectively converges to account for the variance seen in its constituent items. The average variance extracted (AVE) for all items within each construct is the statistic employed to assess the convergent validity of the constructs. According to (Hair, Howard, & Nitzl, 2020), an AVE value of 0.50 or more is considered acceptable since it suggests that the concept accounts for at least 50 percent of the variance in its items. The results of the analysis for outer loading, composite reliability, Cronbach Alpha, and AVE are shown in Table 1.

Table1. Outer Loading, Composite Reliability, Cronbach Alpha, AVE

Variable	Item	Outer Loading	Composite Reliability	Cronbach Alpha	AVE
Proactive strategy	PCS1	0.812	0.877	0.815	0.642
	PCS2	0.788			
	PCS3	0.750			
	PCS4	0.852			
Growth Risk Orientation Strategy	GRS1	0.791	0.840	0.716	0.636
	GRS2	0.762			
	GRS3	0.838			
Innovation Culture	IMP1	0.796	0.946	0.939	0.576
	IMP2	0.801			
	IMP3	0.828			
	INFLU1	0.739			
	INFLU2	0.725			
	INFLU3	0.750			
	INFRA1	0.745			
	INFRA2	0.737			
	INFRA3	0.734			
	INFRA4	0.742			
	INT1	0.742			
	INT2	0.754			
	INT3	0.767			
Innovation Performance	IP1	0.835	0.946	0.932	0.747
	IP2	0.883			

Variable	Item	Outer Loading	Composite Reliability	Cronbach Alpha	AVE
	IP3	0.898			
	IP4	0.858			
	IP5	0.893			
	IP6	0.814			

According to the findings of the analysis, the outer loading values for all indicators that measure constructs in this study have fulfilled the recommended criteria; namely, the outer loading values are more significant than 0.70 so that the construct measuring items have a good level of validity or can measure the construct under study. The reliability value of internal consistency has also provided results that are by the provisions; it is known that the value of composite reliability and Cronbach alpha for the proactive strategy construct, growth strategy, innovation culture, and innovation performance value is more significant than 0.70, meaning that the construct in this study has a high level of reliability.

The AVE value, which is a measure of convergent validity, also produces a value that follows the rule of thumb recommended by (Hair, Howard, & Nitzl, 2020), which is greater than 0.50, which indicates that the construct in this study has convergent validity, or in other words, the construct explains at least 50 percent of the item variance.

Inner Model

Assessment in the structural model includes an assessment of statistical colinearity, coefficient of determination (R2), Construct cross-validated redundancy (Q2), and statistical significance and relevance of path coefficients. It can be seen in Table 2 that the VIF values for all exogenous constructs are already lower than 5, meaning that there is no collinearity problem in predictor constructs.

Table 2. VIF

Variable	VIF
Innovation culture	1.279
Growth risk orient. strategy	1.075
Proactive strategy	1.075

The results of the analysis of the coefficient of determination and construct cross-validated redundancy can be seen in Table 3.

Table 3. R^2 and Q^2

Variable	R Square	Q Square
Innovation culture	0.254	0.136
Innovation performance	0.543	0.392

The R2 assessment criteria are based on the opinion of (Sarstedt et al., 2020), which states that R2 ranges from 0 to 1, with a higher value indicating a more significant explanatory power percentage of influence of exogenous variables in explaining endogenous variables. The R2 assessment criteria are based on the opinion of (Edeh, Lo, & Khojasteh, 2023) which states that R2 ranges from 0 to 1, with a higher value indicating greater explanatory power.

Based on the analysis results, the R-square value for the innovation culture variable is 0.254, indicating that the ability of the predictor variables, namely proactive strategies and growth strategies in explaining the culture of innovation, is 25.4 percent or included in the medium category.

Based on the analysis results, the R-square value for the innovation performance variable is 0.543, indicating that the ability of the predictor variables, namely proactive strategy, growth strategy, and innovation culture, to explain innovation performance is 54.3 percent or included in the large category. The analysis results show that the Q-square value for the innovation culture variable is 0.136, meaning that the predictive accuracy of the proactive strategy and growth strategy variables in predicting the innovation culture is in the medium category.

Based on the analysis results, the Q-square value for the innovation performance variable is 0.392, meaning that the predictive accuracy of the proactive strategy, growth strategy, and innovation culture variables in predicting innovation performance is high. The results of the analysis of statistical significance and the relevance of the path coefficient can be seen in Table 4.

Table 4. Direct Effect

Relations between variables	β	St.Dev	t Statistics	p Values
Proactive strata -> IC	0.437	0.080	5.477	0.000
Growth risk orient start ->IC	0.161	0.074	2.190	0.029
IC -> IP	0.257	0.081	3.158	0.002

Table 4 shows that **H1** is accepted, evidenced by the path coefficient value of 0.437 and a p-value of 0.000. **H2** is accepted, evidenced by the path coefficient value of 0.161 and a p-value of 0.029. The culture of innovation was found to have a positive effect on innovation performance with a path coefficient of 0.257 and a p-value of 0.002 (**H3** is accepted).

Mediation Test

The mediation analysis results in bright please are carried out by looking at the output of a specific indirect effect, one of the output features in the SmartPLS software, to see the mediation effect. The summary is shown in Table 5.

Table 5. Mediation Effect

	β	S. D	T Stat.	P Values
Growth Risk Orient Strat. -> IC-> IP	0.041	0.026	1.597	0.111
Proactive Strata. -> IC-> IP	0.112	0.042	2.687	0.007

The t-statistic value shown in the table above is 1.597, with a p-value of 0.111 in the mediation of innovation culture on the influence of growth strategies on innovation performance **(H4** is rejected). While **H5** is accepted, which is indicated by a t statistical value of 2.687 and a p-value of 0.007. Based on the analysis of innovation culture, it has yet to be proven to mediate the relationship between growth strategy and innovation performance. It means that the growth strategy and innovation culture are only proven to influence innovation performance directly. In other words, innovation performance can be increased directly with a growth strategy without going through a culture of innovation.

Based on the analysis of innovation culture, it is proven to mediate the relationship between proactive strategy and innovation performance. It means that implementing a proactive strategy will encourage the creation of a culture of innovation, which in turn will impact increasing innovation performance.

DISCUSSION

The analysis findings indicate that the proactive strategy has been empirically demonstrated to significantly impact the culture of innovation (H1 is accepted). SMEs engage in the process of enhancing and altering their products through the implementation of a proactive strategy. Conversely, a proclivity exists to partake in ventures with inherent risks and a predilection to use audacious approaches to attain objectives inside an organization. Hence, there is potential for enhancing the culture of innovation.

The H2 has been accepted. The investigation findings indicate a statistically significant relationship between the growth strategy and fostering an innovative culture. This discovery suggests that the augmentation of the growth strategy will facilitate cultivating an inventive culture. Implementing proactive efforts will be pivotal in creating a suitable climate that promotes and nurtures creativity. This observation highlights entrepreneurs' perpetual pursuit of novel and innovative resolutions at the forefront of introducing pioneering items to the market. Consequently, this will foster a climate of innovation inside small and medium-sized enterprises (SMEs).

The acceptance of H3 implies that fostering a culture of innovation will lead to enhanced innovation performance. In order to cultivate a culture of innovation, small and medium-sized enterprises (SMEs) must establish a supportive cultural environment that fosters and encourages innovation. Consequently, this will result in an enhancement in the organization's innovation performance (Padilha & Gomes, 2016).

Based on the analysis of innovation culture, it has yet to be proven to mediate the relationship between growth strategy and innovation performance. It means that the growth strategy and innovation culture are only proven to influence performance directly. Alternatively, a growth strategy can directly increase innovation performance without going through a culture of innovation.

Based on the analysis of innovation culture, it is proven to mediate the relationship between proactive strategy and innovation performance. It means that implementing a proactive strategy will encourage the creation of a culture of innovation, which will increase innovation performance (Hanifah, Halim, Ahmad, & Vafaei-Zadeh, 2020).

CONCLUSION

This study's findings suggest that implementing proactive and growth-oriented strategies contributes positively to developing an innovative culture, as supported by previous research investigations (Miller et al., 2011). The efficacy of strategy implementation positively correlates with cultivating an innovative culture inside SMEs. The findings of this study also effectively evaluated the efficacy of the cultural mediation paradigm. The presence of a culture that fosters discovery has been found to favorably impact innovation performance (Zainol & Ayadurai, 2010). The concept of innovation culture serves as a mediator in the connection between proactive strategy and innovation performance. Nevertheless, a culture of innovation is a mediator for a growth-oriented approach to achieving optimal innovation performance. This research offers practical insights for executives seeking to implement proactive tactics to foster a culture of innovation, positively influencing innovation performance (Halim, Ahmad, & Ramayah, 2019).

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DECLARATION OF CONFLICTING INTERESTS
The authors affirm that this article has no possible conflicts of interest.

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