

## **Impact of Innovative Practices on Business Growth Under The Moderating Impacts of Culture - A Conceptual Model**

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### **ABSTRACT**

The growing SMEs have been recognized as the backbone of economies. SMEs business growth in various sectors is emphasized more by the governments of all developing nations to achieve the status of developed or high-income nations. Both internal and external factors have the influence on SMEs business growth. However, this paper will focus more on the influence of innovative practices of SMEs for their business growth. The innovative practices are critical for the growth of SMEs businesses in both developed and developing countries. This study will also look at the two main antecedents of innovative practices, i.e, market orientation, and technology orientation. It will also attempt to investigate the moderating influence of culture (individualism-collectivism). Therefore, the purpose of this paper is to develop a conceptual model by considering the market orientation and technology orientation as antecedents of innovative practices while examining the organizational culture (individualism-collectivism) as a moderator in the relationship between innovative practices and SMEs business growth. Therefore, a literature review of relevant topics has been conducted in order to develop the conceptual model and its hypotheses. Study limitations and future recommendations are also discussed.

Keywords: SMEs Business Growth; Innovative Practices; Market Orientation; Technology Orientation; Culture.

### **1. INTRODUCTION**

The SMEs growth is the main focus of every country's government because growth determines the success of SMEs businesses and is critical for the development of any country. The firms develop various strategies to grow their businesses. The firms' growth strategies result into long-term outputs in the form of superior businesses, increased profits, and increased number of employees as well as the expansion of business operations. Although the literature has highlighted various factors that could impact the business growth of SMEs such as entrepreneurial competencies (Ahmad, 2007); and the entrepreneur's characteristics (Ferreira et al., 2011) etc, but this study argues that innovative performance of SMEs has a major impact on their growth. This argument is in line with many other studies

that have also demonstrated the effect of innovative practices on SMEs growth (Talke et al., 2011; Sanz-Valle & Jimenez-Jimenez, 2011; Gunasekaran et al., 2000). Innovative practices play a vital role in the success and growth of SMEs businesses especially if they are facing the intense competitive environment in their relevant industry. Because through innovative practices, the SMEs are able to do things differently either by introducing new products or services or by improving the existing products/services. The innovative practices are crucial for SMEs while facing the uncertain business environment with the high uncertainty of technological changes and customers' demands as well. The purpose of this paper is to investigate the effect of innovative practices on SMEs growth. It will also attempt to look at the antecedents of innovative practices namely market orientation and technology orientation. The market orientation enables the firms to get information about their customers, competitors, and markets. Therefore, this concept actually indicates knowledge acquisition of firms about customers, competitors, other market participants, and then sharing of such knowledge within the firm for taking action in order to deliver superior value to the customers (Slater, 1997). A large number of studies have highlighted the impact of market orientation on innovation and innovative practices (Reijonen et al., 2012; Grinstein, 2008; Tajeddini et al., 2006). The other antecedent of innovative practices focused by the present study is technology innovation which indicates firms' technological policy, position, and its adoption. The technological capability of firms leads to their successful innovations in developing new or improving existing services and products according to the needs of markets and consumers (Zhou et al., 2005; Berkhout et al., 2010). Besides, these antecedents, the study will also attempt to investigate the moderating impact of culture on the relationship between innovative practices and SMEs growth as well. The cultural differences lead to cross-national differences in innovation and also impact the relationship between innovation and performance of firms because cultural differences impact the input, commercialization, and the innovation process. The focus of this study will be on individualism-collectivism dimension of culture suggested by Hofstede (1980) because of its importance with respect to creating new ventures and innovation management (Tylecote, 1996). The individualism has been associated with the activity of radical innovation (Herbig & Miller, 1992), and facilitates the development of new product at invention stage (Nakata & Sivakumar, 1996). On the other hand, collectivism facilitates incremental innovations which include the improvements of existing products (Herbig & Miller, 1992), because the process of incremental innovation depends on the interaction with key suppliers, customers, and on collaboration within the firm (Rosenbusch et al., 2011). Although most of the previous researches have been conducted in the context of developed countries to understand innovations, but gaps still exist regarding the acceptance of innovations outcomes and the antecedents of innovation practices within SMEs to attain business growth performance in the developing economies and markets (i.e. Malaysian market). Many studies have indicated that collaborations with academic-industry and organizational culture impact positively on innovations (Nelson, 2011; Wright, 2008; Martins & Terblanche, 2003; Peebles, 2003; Deshpande et al., 1993; Parker, 1992), whereas others had discovered negative influence of technology orientation and alliance on innovations (Bao et al., 2011; Gao et al., 2007; Laforet & Tann, 2006; Asheim et al., 2003; Srinivasan et al., 2002; Bougrain & Haudeville, 2002; Tripsas & Gavetti, 2000; Gomez & Arias, 1995).

Therefore, the purpose of this conceptual study is to make an attempt to fill up this research gap by developing a conceptual model under the context of Malaysian SMEs. Therefore, it will examine the impacts of market orientation and technology orientation on innovative practices through literature review. The previous studies regarding the moderating impacts of culture in the relationship between innovative practices and SMEs business growth will be also highlighted as well. This study will improve the understanding regarding the impacts of market orientation and market orientation on innovative practices. It will also add to the existing knowledge that how individualism-collectivism can strengthen the relationship between the innovative practices and Malaysian SMEs business growth. Because of the multicultural context of Malaysian SMEs, it would be interesting to see the influence of culture on business growth. The next part of this paper will highlight some relevant studies of understudy topics such as SMEs business growth, innovative practices, market orientation, and technology orientation. This literature review will lead to the development of a conceptual model in the next part to the literature review. The conclusion including the study limitations and future recommendations will be discussed at the end of paper.

## **2. LITERATURE REVIEW**

### **2.1 SMES BUSINESS GROWTH**

For past few decades, the firm's growth has become a major topic in the field of strategic research. The three basic components such as the small firm's characteristics, the entrepreneur's characteristics, and the firm's development strategies combine together and results into the process of business growth in small firms (Ferreira et al., 2011). Every business owner aims to achieve the growth and outstanding performance of his/her businesses (Rosli & Abdullah, 2015). The research on business growth has revealed little progress in recent years. Therefore, it is crucial to determine various factors that impact the SMEs business growth. Many researchers have emphasized more on business growth as an important indicator of SMEs performance (Chandler & Hanks, 1993; Brush & Vanderwerf, 1992; Fombrun & Wally, 1989). Wilklund (1999) has also argued that growth of SMEs businesses can determine the performance of SME more accurately relative to other measures of performances (financial and non-financial). The firm's business growth also reveals its failure or success. The researchers have highlighted various internal as well as external factors that might impact the ventures' early growth (Garnsey et al., 2006).

The firm's growth also demonstrates the behaviors of business owners or entrepreneurs in small firms (Green & Brown, 1997). Lee & Tsang (2001) stated that as most of the entrepreneurial businesses are of small or medium sizes which are privately held, therefore, legally they are not required to reveal information regarding their financial performance. Moreover, it is a sensitive matter for SMEs to depict their financial performance. On the other hand, disclosing data on business growth may be a less sensitive matter for SMEs businesses (Lee & Tsang, 2001). Moreover, Chandler & Hanks (1993) also found higher internal consistency and better content validity in self-reported data on SMEs business growth as compared to self-reported data about financial or non-financial performances of ventures.

## 2.2 MARKET ORIENTATION

This concept deals with the firm's information regarding its competitors, customers, and markets. According to Slater (1997), the market orientation of a firm indicates its acquisition of knowledge about market participants and customers, sharing of such knowledge within the organization, achieving agreement over its meaning, and then taking action in order to deliver superior value to the customers. Firms' market orientation assists in facilitating innovation and increasing knowledge with its outward focus on competitors and customers (Dibrell et al., 2011; Tajeddini et al., 2006; Varadarajan & Jayachandran, 1999; Day & Wensley, 1988; Gray et al., 1998). Previous studies had postulated a positive association among market orientation, innovation, and SMEs business performance (Baker & Sinkula, 2007; Tajeddini et al., 2006; Lee & Tsai, 2005; Han et al., 1998). Market orientation can be viewed as an innovative behavior because it also involves doing something different or new in response to market conditions (Jaworski & Kohli, 1993). Thus, market orientation helps the managers of SMEs to face the challenges of the uncertain business environment by providing innovative solutions to such problems of businesses (Hult et al., 2004). A study by Jaworski & Kohli (1996) suggested considering the innovation as an outcome of market orientation. Many researchers have also recognized the impact of market orientation on innovation (Reijonen et al., 2012; Grinstein, 2008; Tajeddini et al., 2006; Salavou et al., 2004). The market orientation of SMEs improves their innovative outlooks in order to meet the demands of customers, to face uncertainty of market conditions, to imitate the actions of competitors, and to share the required information among individuals internally to develop new services and products in order to attain superior growth performance of businesses (Dibrell et al., 2011; Zhou et al., 2005; Henard & Szymanski, 2001; Slater & Narver, 1994; Deshpande et al., 1993; Narver & Slater, 1990; Twiss, 1974). Innovation success of the firms depends on close links with their suppliers, customers, and other external parties for knowledge acquisitions (Kamalian et al., 2013; Lukas & Ferrell, 2008; Ritter & Gemunden, 2003). Therefore, strong market orientation of SMEs lead towards more innovativeness and better understanding towards the needs of the customers and competitive situations in the related industries that lead them to develop new services or products to achieve desirable business performance (Keskin, 2006; Iyer et al., 2006; Verhees & Meulenbergh, 2004; Henard & Szymanski, 2001; Lin, 1998; Morris & Lewis, 1995). The market orientation enables SMEs to remain proactive as well as to give immediate response to the changes that take place in the market (Mahemba & De Bruijn, 2003; Kim & Mauborgne, 2001). According to Rothwell & Zegveld, (1982), SMEs with their market orientation can better serve a niche market and can establish a long-term relationship with their customers. SMEs should conduct market research in order to understand their competitors and customers (Callahan & Cassar, 1995; Brush, 1992). However, due to scarce marketing resources, SMEs do less market research, have less well-known brands, lack presence in accessible markets (Allocca & Kessler, 2006). Many studies have provided evidence to propose that emerging markets face high level of uncertainty in the customers' demands because they have many options to explore various categories of services or products (Gao et al., 2007). Thus, the above discussion leads to propose the following proposition,

Proposition 1: Market orientation has a positive impact on the innovative practices of a firm.

## 2.3 TECHNOLOGY ORIENTATION

It focuses on the firms' technological position, policy, and its adoption. Many studies have considered firms' technology as a main contributing factor in implementing successful innovation practices and attaining firms' competitive advantage (Henard & Szymanski, 2001; Simon, 1996). Similarly, according to Nemet (2009), the firms' technological opportunities might impact the direction and rate of innovation. The technology orientation of a firm is considered as the capability to attain and use a significant technological background in order to develop new products/services. The firm utilizes its capabilities and resources to acquire and develop new opportunities of technologies (Gatignon & Xuereb, 1997). The technology-oriented firms offer their consumers with better and new technologies as well as with better technical solutions because of consumers' demands for the technological superiority of services and products (Gao et al., 2007). The exploring, availing, and successfully launching new technologies for the firms depend on the experimental users or existence of fringe and niche markets, or both (Crane, 2007). Technological capability of a firm leads to successful innovation in creating services and products according to the needs of consumers and markets (Zhou et al., 2005; Berkhout et al., 2010). The technology acceptance and its adaptation enable a firm to achieve high productivity and better quality of new services and products (Hjalager, 2010). The firms with their technological capabilities and resources can assist their operations in developing new products and processes (Spanjol et al., 2012; Ellonen et al., 2011; Humphreys et al., 2005; Hadjimanolis, 1999). Moreover, internal technology policy of a firm reflects its commitment and attitude to innovate (Wilson et al., 1999; Ettl, 1983; Ettl & Bridges, 1982). The firms' technological position determines its leadership successes in technology, competitive advantages, differentiations of services and products, and better performances (Gatignon & Xuereb, 1997; Hamel & Prahalad, 1994; Hitt et al., 1990). Firms that remain proactive in obtaining and adopting new technologies are likely to be more innovative because of their strong emphasis on technological applications for the development of new services, products, and processes (Laforet & Tann, 2006; Cooper, 1994). The firms that combine technology with innovation and customer value innovation actually enjoy more sustainable profits (Humphreys et al., 2005; Kim & Mauborgne, 1999). The innovative behavior of SMEs is determined by the use of technology in their administrative tasks (Cumming, 1998). However, SMEs faces the challenges regarding their ability in affording heavy investments for the development and adaptation of new technologies that can lead them to acquire technology through value chain activities or through outsourcing (Salavou et al., 2004; Mahemba & De Bruijn, 2003; Alstrup, 2000). The policy of government regarding technology should be adapted according to the SMEs needs by offering more assistance throughout the process of innovation from pre-competitive research until the development of product by focusing on facilitating the vertical linkages such as from supplier to manufacturer and manufacturer to customer (Rothwell & Dodgson, 2007). The strategic orientations of management of SMEs impact hugely on the level of their technological positions compared to their rivals (Aragon-Sanchez & Sanchez-Marin, 2005). Therefore, the following proposition can be developed from above discussion;

P2: Technology orientation has a positive influence on innovation practices of a firm.

## **2.4 INFLUENCE OF INNOVATION PRACTICES ON BUSINESS GROWTH**

The literature has highlighted the importance of innovative practices for the growth of businesses. For instance, various studies have emphasized on the contribution of innovation in achieving

competitive advantage and superior business growth performance under different contexts (Talke et al., 2011; Sanz-Valle & Jimenez-Jimenez, 2011; Gunasekaran et al., 2000; Zahra et al., 1999; Mone et al., 1998). The innovation capability and investment of a firm determines its business performance (Francis et al. 2012; Ali et al., 2008; Cooper, 2000; Hurley & Hult, 1998; Mone et al., 1998). Hult et al. (2004) have argued that innovation adoption actually contributes to the effectiveness and superior performance of the firms. Small and medium enterprises (SMEs) are well-known for the development of new products or services and creativity (Kenny & Reedy, 2006). However, sometimes the SMEs cannot recognize the opportunities that they can avail from the marketplace, such as the flexibility of customizing services or products according to the needs of their customers (O'Regan et al., 2006). Therefore, it is crucial for the firm to be a smart evolver, strong competitor and innovator of other firms in the same industry in order to achieve long-term growth (Beinhocker, 1997). According to Mahemba & De Bruijn (2003), the innovative behaviors of SMEs enable them to outlook the barriers as opportunities to learn from surroundings rather than as negative incidents. Similarly, Keskin (2006) has also argued that innovative capabilities of SMEs have a positive effect on their growth of businesses. Thus, Innovation can positively affect the growth of firms businesses (Otero et al., 2009). A group of different indicators have been used to determine the growth and business performance of SMEs. They include for instance, profitability, new products and services, market share, sales growth, productivity (Al-Ansari, 2014). However, the most productive and profitable firm is with its strategic orientation towards innovation, quality, and customer satisfaction (Aragon-Sanchez & Sanchez-Marin, 2005). The literature has shown the use of these indicators to determine the business growth and also to differentiate between good and poor performance of firms (Mahemba & De Bruijn, 2003; Calantone et al., 2002; Cooper, 2000; Hadjimanolis, 1999). A similar approach is recommended to use in order to investigate the growth of SMEs business in the context of Malaysia to distinguish the firms based on their innovation practices. Therefore, the above discussion leads to the development of the following proposition;

Proposition 3: Innovative practices have a positive influence on business growth.

## 2.5 CULTURE

Many studies have related the national culture with various aspects of innovation (Jones & Davis, 2000; Herbig, 1994). For instance, the national differences in innovation and invention rates (Shane, 1993; Shane, 1992), R&D activity and productivity (Couto & Vieira, 2004; Kedia et al., 1992), entrepreneurship (Zacharakis et al., 2007; Tiessen, 1997; Morris et al., 1993), and entrepreneurs' technology alliance (Steensma et al., 2000). The cultural differences not only lead to cross-national variations in innovation, but also impact the relationship between innovation and firms' performance because cultural differences affect the input, commercialization, and the process of innovation. The individualism-collectivism and power distance dimensions of culture suggested by Hofstede (1980) are considered to be most important with respect to venture creation processes and innovation management (Mitchell et al., 2000; Tylecote, 1996). The individualism-collectivism dimension is concerned with the importance of individual or group goals at the societal level. For instance, the people are motivated more in achieving personal goals in an individualistic culture whereas people in collectivist cultures more focus in attaining their group goals to which they belong. The level of individualism determines achievement motivation and social interactions (Hofstede, 1980). These physiological needs (achievement motivation) and behaviors (social interactions) are more related with the process of entrepreneurship and innovation (McClelland, 1987). Individualism may impact innovation-SMEs performance relationship for many reasons. According to Pothokuchi et al. (2002), the organizational culture is a part

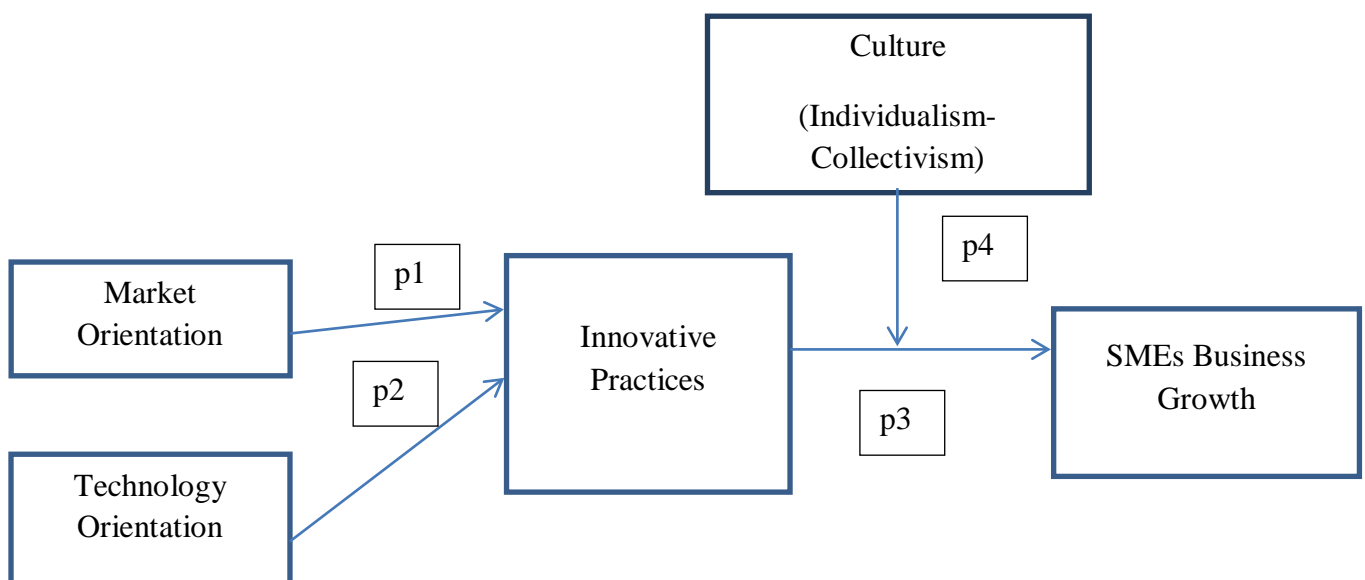
of the national culture; therefore, individualism at the societal level impacts the SMEs organizational culture as well. In general, the SMEs are less affected by several national cultures because many small firms do not have subsidiaries at the international level that could have an additional influence on firms' culture. Therefore, the individualism of home culture has the strong impact on the SMEs' culture (Rosenbusch et al., 2011). The individualism can be beneficial at the organizational level, but also determines the success of innovation activities in SMEs. For instance, SMEs get more benefits from highly individualistic employees, managers, and founders at the invention stage. Thus, individualism assists in fostering independence, creativity, and autonomy (Jones & Davis, 2000). These are the characteristics that are beneficial for the process of the invention (Ramamoorthy et al., 2005; Van de Ven, 1986). Many researchers have also linked individualism to entrepreneurial orientation and SMEs success (Rauch et al., 2009; Mueller & Thomas, 2001; Lee & Peterson, 2000). Furthermore, individualism assists in developing new products through product championing (Howell et al., 2005; Nakata & Sivakumar, 1996). Therefore, individualism has been related to the activity of radical innovation (Herbig & Miller, 1992). Although individualism facilitates the development of new product at the invention stage (Nakata & Sivakumar, 1996) and is also critical for the implementation of innovation after the completion of invention stage and then new product or services is brought to market (Rosenbusch et al., 2011). The innovations can be successfully commercialized when the firms' employees interact with each other as well as with outsiders such as suppliers, customers, and other stakeholders in the very well manner (Van de Ven, 1986). Therefore, the collectivism plays a vital role in fostering cooperative team behavior and social interactions (Eby & Dobbins, 1997). Thus, collectivism tends to be beneficial during the stage of commercialization (Rosenbusch et al., 2011). SMEs have generally lack of critical resources (such as marketing resources) to access the distribution channels; collectivism is beneficial for such firms (Rosenbusch et al., 2011). Moreover, collectivism also facilitates incremental innovations which include the improvements of existing products (Herbig & Miller, 1992), because the process and implementation of incremental innovation requires the interaction with key customers and suppliers as well as collaboration within the firm (Rosenbusch et al., 2011). Collectivism plays more important role relative to individualism because it is helpful in facing special challenges and obstacles within innovation projects (Edmondson & Nembhard, 2009; Hoegl et al., 2003; Ensley et al., 2002; Lechler, 2001; Dailey, 1978). The challenges during innovation process are augmented because SMEs have limited resources. In consequence, SMEs have to rely more on teamwork which is difficult to accomplish in highly individualistic cultures. Moreover, SMEs in strong collectivistic societies exhibit innovative behavior and focus more on imitative strategies. Due to scarce resources needed for innovation, only fewer SMEs attempts to do innovation, therefore the competition of innovative products and services is reduced in markets. As a consequence, only a few SMEs that exhibit innovative behavior can actually gain more advantages from their innovation activities as compared to the societies where most SMEs pursue innovation (Rosenbusch et al., 2011). Therefore, the high relevance of social interactions and teamwork for the development of innovations, commercialization of innovations, and market-related advantages of being an innovator or innovative firm in a less innovative environment actually leads to propose that collectivism improves the relationship between innovation and SMEs performance.

**Proposition 4:** Individualism-collectivism moderates the relationship between innovative practices and SME business growth such that the high level of individualism-collectivism results into the stronger positive relationship.

## 2.6 CONCEPTUAL MODEL

Figure 1 depicts the proposed conceptual model in which innovative practices and SMEs business growth are the independent and dependent variables respectively. Market orientation and technology orientation are taken as antecedents of innovative practices. The study by Al-Ansari, (2014) found a significant impact of market orientation and technology orientation on the innovative practices under the context of Dubai SMEs. This study also argues that there might be a significant impact of market orientation and technology orientation on innovative practices as well in the context of Malaysian SMEs. Therefore, the conceptual model comprises them as antecedents of innovative practices. The culture (individualism-collectivism) is the moderator in the relationship between innovative practices and SMEs business growth. The study by Rosenbusch et al. (2011) found that the relationship between innovation and firms performance depends on the context. Their study identified that some factors such as the firm's age, the innovation type, and the cultural context impact the innovation-performance relationship to a large extent. Therefore, cultural context is taken as the moderator for the proposed model because this study argues that multicultural context of businesses in Malaysia might have more impact on the relationship between innovative performance and SMEs business growth as compared to firms' age and types of innovation.

Figure 1: Conceptual Model



Source: (Al-Ansari, 2014; Rosenbusch et al., 2011)

## 2.7 DISCUSSION, CONCLUSION, AND FUTURE RECOMMENDATION



This study has proposed a conceptual model after reviewing the literature on innovative practices, SMEs business growth, market orientation, technology orientation, and culture. The existing literature is evident regarding the impacts of innovation on SMEs business growth in emerging economies, developing as well as in developed countries (Talke et al., 2011; Sanz-Valle & Jimenez-Jimenez, 2011; Gunasekaran et al., 2000). The previous studies have also revealed the influence of market orientation and technology orientation on innovative practices (Baker & Sinkula, 2007; Tajeddini et al., 2006; Henard & Szymanski, 2001; Simon, 1996). This shows that SMEs have to adopt both approaches of market orientation as well as technology orientation for effective innovative practices. On the other hand, the innovation-performance relationship was also found to be contingent upon specific contextual factors such as culture (Rosenbusch et al., 2011). Similarly, it would be interesting to examine the impact of culture as a moderator in improving the relationship between innovative practices and SMEs growth under the context of Malaysian SMEs due to the multicultural context of businesses.

Although this study has provided useful insights regarding the influence of innovative practices on SMEs growth, but it could only develop a conceptual model from existing literature and did not involve empirical testing of proposed model. The relevant theories are not discussed in it. The other limitation of this study is that it described only one moderator in the conceptual model. However, the literature has also highlighted innovation type and firm size as other possible moderators (Rosenbusch et al., 2011).

There are some future recommendations. For instance, the proposed model should be tested empirically in the context of Malaysian SMEs across various sectors. The future studies should comprise the cross-sectional as well as longitudinal approaches in this regard. The researchers are suggested to identify the relevant theories to the proposed conceptual model to make some theoretical contributions by extending the existing theories. The future studies can also compare the innovative practices of large and small size businesses in the context of Malaysia. The further studies should strive to identify other possible moderators such as government role, entrepreneurial competencies, firm size, network competence, and innovation type etc as well in the relationship between innovative practices and SMEs business growth. The future studies should continue focus on the research regarding innovative practices adopted by different types of Malaysian SMEs businesses.

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