

Innovation and Customer Involvement in Creating SME Business Performance in the Creative Economy Sector in Indonesia

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Innovation and Customer Involvement in Creating SME Business Performance in the Creative Economy Sector in Indonesia

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Abstract

Nowadays innovation has become an important topic among academics and business practitioners. since the environment is increasingly competitive in a dynamic environment, the need to develop internal capabilities is increasingly becoming a prerequisite for global survival. Innovation and customer engagement practices are becoming important concepts to help companies achieve these niches. Despite the importance of innovation and customer engagement, research linking innovation and customer engagement with business performance in one model is still limited in the context of creative economy SMEs. The aim of this research is to provide new practical and theoretical insights into how SMEs adapt and further develop their innovation capabilities and leverage customer engagement for business performance. The paucity of studies in the existing literature underscores the potential contribution of future research. The novelty of this research is first, to develop the concept of innovation associated with customer involvement, whose linkages have not been widely disclosed in the context of SMEs in the creative economy sector. Second, build a relationship between customer involvement and business performance. Third, building the concept of developing the relationship of innovation to SME innovation in the creative economy sector by strengthening the role of mediating customer involvement. Fourth, to examine in an integrated and holistic manner the concept of innovation and customer involvement in creating SME business performance in the creative economy sector in Bali, Indonesia.

Keywords: innovation, customer engagement, business performance. duction

1. Introduction

In Indonesia, small and medium enterprises have a major role as economic activities that contribute to national income, employment and create national economic stability (Nuryakin, 2018). It can be interpreted that the existence and development of small and medium enterprises is expected to make a significant contribution to solving economic, social and poverty problems. The Ministry of Tourism and Creative Economy of the Republic of Indonesia has shown its commitment to the development of small and medium businesses in the creative economy with leading sub-sectors including craft, culinary, fashion, performing arts and music to strengthen the regional economy (Kompas.Com).

SMEs in the creative economy sector have shown their achievements in surviving amidst competitive business competition and environmental dynamics (Mac & Evangelista, 2016), but their growth trend has decreased (Bali Province Industry and Trade Office, 2022). Indications of the development of an industry are reflected in improved business performance. Business performance is determined by internal capabilities and their role in the external environment. Internal factors affect business performance. The era of globalization marked by technological advances, uncertainty, changes in consumer preferences, and shortened product ages requires innovation to protect itself from competitive pressures. Competition becomes natural and the core of success, when companies are able to adapt, change, and build a culture of innovation (Sandvik & Sandvik, 2003).

It is universally recognized that the key to corporate survival is innovation (Ndubisi & Iftikhar, 2012). The dynamic environment and the desire to achieve quality-based competitive advantages demand flexibility and adaptability through innovation (Sok & O'Cass, 2015). Innovation ability is described as the success of implementing creative ideas in the organization. The concept of innovation from an organizational perspective is described as the ability to create something new or bring renewal, change, and behavior by leveraging existing capabilities. Organizational skills in transforming knowledge and ideas into processes, systems or products indicate innovation (Guo, 2019).

Research that aims to explore the impact of innovation on business performance has been explored in previous studies ((Syapsan, 2019). Research has reached a consensus that innovation has a positive impact on business performance from the perspective of growth in market share, productivity, sales, and profitability (Padilha & Gomes, 2016). Research related to innovation has been conducted in Europe (Azari, Madsen, & Moen, 2017), in China (Cheng & Shiu, 2020), in Thailand (Muangkhrot, 2015), p. this confirms that innovation has a significant positive role in improving business performance. However, there are still contradictory study results which find the effect of innovation on business performance positive but not significant (Darroch, 2005; Hilmi, Ramayah, Mustapha, & Pawanchik, 2010). Given the importance of innovation in relation to a company's competitive position, the question is how to create innovation to support business performance. The company's ability to turn information into competitive offers is a driver of business performance.

On the other hand, customer engagement refers to a company's ability to adopt an innovative approach to customer portfolio management which in turn builds intimate relationships with customers (Gummesson, 2017). The results of a successful customer relationship approach produce superior business performance (Wahyuni & Sara, 2020). In particular, customer engagement is an organizational culture that understands and anticipates customer needs and preferences and then provides superior customer value thereby driving better company performance (Sashi, 2012).

Therefore, based on the premise above, it is logical to conclude that previous researchers have not only paid very minimal attention to innovation, customer engagement and business performance in creative economy SMEs; there are still many opportunities to expand the

theoretical and empirical literature on innovation, customer engagement and business performance of creative economy SMEs.

Consequently, the specific aim of this article is to leverage the research community a conceptual framework that will link innovation and business performance with mediators of customer engagement, and will contribute to a body of knowledge.

2. Literature review and hypothesis development

2.1 Innovation

Relentless turbulence, competition and ever-changing customer expectations demand that companies embrace innovation. Innovation becomes a strategic tool in responding to environmental changes in the external and internal environment. Drucker (1954) was one of the first researchers to introduce the concept of innovation. Conventionally the term innovation refers to breakthroughs related to new products and services (Padilha & Gomes, 2016). Companies should adopt or produce innovations from time to time in order to be able to adapt to a changing environment (Al-Ansari, Pervan, & Xu, 2013). Innovation is defined as a company's ability to seek something new or better by identifying, obtaining, and carrying out tasks such as products, services, processes, administration and management systems, marketing methods (Ndubisi & Iftikhar, 2012a).

Innovation includes organizational capacity to introduce and implement new ideas, some products, processes, and knowledge within the organization (Civelek, Červinka, Gajdka, & Nėtek, 2021) which are considered as aspects of culture (Roach, Ryman, & White, 2014), and resources to introduce and implement new ideas, some products, processes, and knowledge within the organization (Wahyuni, 2021). Organizational ability to transform knowledge and ideas into processes, new products, and systems into management strategies for the benefit of the company and stakeholders reflects innovation capability (Silva, 2014). For an organization, innovation is the generation or search for new ideas or behaviors; an innovation can be a new product or service, a new production technology, a new operating procedure, or a new management strategy (Padilha, 2014). Innovation supports the creation of business performance (Klein & Gomes, 2016). Thus we put forward the hypothesis:

H1: Innovation has a positive and significant effect on business performance.

2.2 Customer engagement

Appropriate identification of research participants is critical to the science and practice of psychology, particularly for generalizing the findings, making comparisons across replications, and using the evidence in research syntheses and secondary data analyses. If humans participated in the study, report the eligibility and exclusion criteria, including any restrictions based on demographic characteristics.

Customer involvement is an important concept in the success of an organization (Sashi, 2012), referring to reciprocal activities between companies and customers to exchange information and share (Cambra-Fierro, Melero-Polo, & Vázquez-Carrasco, 2013). Customer engagement reflects the ability to involve potential customers to interactively build corporate_individual relationships

and direct communication and use social media to meet customer needs (Chung, 2012). (Karyose, Astuti, & Ferdiansjah, 2017).

On the other hand, it has been recognized that a culture of innovation strengthens the quality of communication with customers for co-creation of companies and customers to meet customer needs and increase customer profits. Innovation is a predictor of customer engagement (Ayuso, Rodríguez, García-Castro, & Ariño, 2011). Innovation allows consumers to interact with companies or brands. The company's efforts to provide innovative products and services provide opportunities for consumers to engage and interact with the company. Innovative behavior leads to intense customer engagement (Kim, Ko, Kim, & Jiang, 2021). In this context, components related to innovation capabilities include product innovation, administrative innovation, process innovation. Customer engagement produces customer intelligence that directs the organization to meet the needs of customer desires (Muangkhot, 2015), so that customer growth, market share, and overall performance increase (Mamun, Mohiuddin, Fazal, & Ahmad, 2018). Thus the hypothesis is proposed:

H2: Innovation has a positive and significant effect on customer engagement.

H3: Customer engagement positively and significantly affects business performance

H4: Customer engagement mediates the effect of innovation on business performance.

The issue of performance management and measurement has attracted the attention of researchers and scholars in the current decade. Business performance is an important matter to pay attention to because it explains how well the company's performance is (Al-Ansari et al., 2013). Accurate performance measures provide reliable information about how well the company utilizes its resources and capabilities, develops the best strategy to compete profitably and meets customer expectations (Clulow, Barry, & Gerstman, 2007). Marketing literature states that business performance is described by categories of measures such as market share, customer satisfaction, customer growth (O'Cass & Heirati, 2015). Organizational effectiveness reflects a business performance. Overall, based on the results of the literature review it has been determined that there are theoretical gaps that need to be filled as shown in the conceptual model. In particular, it has been established in the literature that all constructs have been shown to have a relationship with business performance. First, innovation affects business performance. some literature reports a significant positive relationship, while other results show a positive but not significant relationship. Therefore, the inconsistency of results in the literature is the reason for this paper, to further explain the relationship between innovation and customer engagement on business performance. and, the mediating role of customer engagement in the relationship between innovation and business performance.

2.3 Conceptual model

Based on the literature review and the suggested hypotheses, a conceptual model is then presented. A conceptual model was developed to explain the relationship between research variables.

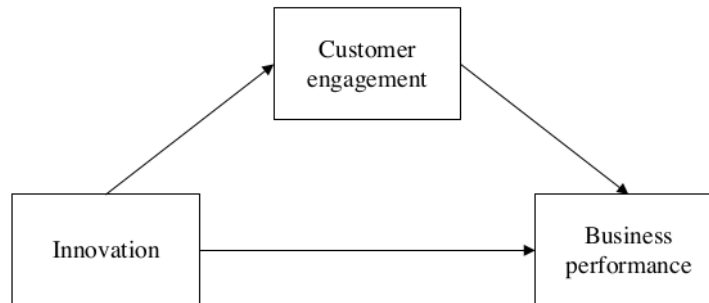


Figure 1. Conceptual model

The model shows the relationship between innovation, customer involvement and business performance. This relationship is supported by the theory of resource-based view which argues that company performance is actively influenced by existing internal resources and capabilities. The fact that, organizations get competitive business performance compared to their competitors by utilizing the resources they have effectively.

The model shown in Figure 1 is in line with the recommendations of previous scholars (for example (Ndubisi & Iftikhar, 2012; Braun, Batt, Bruhn, & Hadwich, 2016). Innovation as a variable can support the effectiveness of business performance. Furthermore, support for customer involvement affects the success of business performance. Therefore, this paper is unique because it is the first logically in the context of the literature to provide a model that helps creative economy SMEs have better business performance guided by previous research and theory.

3. Conclusion

This study has provided a conceptual framework explaining the relationship between innovation, customer engagement and business performance. Most importantly, this research makes an important contribution to the body of knowledge by providing a framework that offers a mechanism for how innovation and customer engagement create business performance. In addition, this research is unique because it explains the possibility of customer involvement as a mediator in the relationship between innovation and business performance. One of the motivations of this study is that the results of this study raise the level of awareness among managers of creative economy SMEs to pay more attention to innovation and customer engagement behavior as this helps them improve business performance and organizational competitiveness.

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