

SMALL BUT STYLISH: PUSHING INNOVATION AMBIDEXTERITY IN INTERNATIONAL SMALL AND MEDIUM ENTERPRISES

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Abstract

Small and Medium Enterprises (SME) have been viewed as remarkable drivers for economic development. In comparison to big business entities, SME are highly flexible revealing better adaptability to changes in the market, making SME designers in innovative enterprises. With the opening of national boundaries, globalization brings more opportunities for SME to multiply its contribution to the growth and well-being of the country. Innovation capability is an essential element for cross-border transaction. International transaction has magnified SME investment in innovation capability to further improve business competitiveness and performance. The trick in dealing with multiple backgrounds customers resides in the SME capability to exploit its existing innovation and simultaneously explore new sphere of innovation. Observed as innovation ambidexterity, the capability permits SMEs to respond dynamically and to combat increased uncertainties in the global market. Due to its premise that promotes adoptability and adaptability, it is rather important to identify antecedent of innovation ambidexterity. Since international entrepreneurial orientation serves as a fundamental drive for entrepreneurship activity in foreign countries, international entrepreneurial orientation that is viewed as a multiple dimension construct, is conceptually articulated as a significant predecessor of innovation ambidexterity in international SMEs in Malaysia.

Keywords: Innovation ambidexterity, Small and Medium Enterprises, Entrepreneurial Orientation, Innovativeness, Proactiveness and Risk-taking attitude

1.0 INTRODUCTION

Globalization has created greater platform for SMEs to seize immense opportunities available beyond the national boundaries. Continued commitment in exploiting various opportunities requires SMEs to transform and participate more actively in innovation activity. Winning a battle in the international market principally resides in SMEs capability to respond innovatively to customers' demand and marketing approach. Innovation is principally essential in sustaining SMEs businesses. However, very limited attempt has been undertaken by SMEs entrepreneurs to establish innovation capability. A recent report by Economic Co-operation and Development (OECD, 2016) indicates that only 5-20 per cent of SMEs in Malaysia actively participate in innovation activities. According to Global Innovation Index (GII), in 2018 Malaysia ranking dropped from 33 in 2014 to 35 in 2018. Lack of innovation capability may justify why 42 percent of the SMEs in Malaysia failed in their operations (SME Masterplan, 2012-2020).

Apparently, to survive and remain competitive in business, SME must assert themselves to establish innovation capability.

Improved product or product manufacturing technology continue as powerful tools to create firm competitive advantage (Akinwale et al., 2017). The Malaysian government has been undertaken significant support to develop resilient SMEs, particularly for the sectors with export potential since the Eight Malaysia Plan (2001-2005). Nonetheless, government aids in positioning SME in the international market does not warrant to sustain SME performance. Instead, in the global marketplace, where competition is gradually increasing, there is no doubt that innovation capability plays significant role in achieving competitive power. Consistent with the development, the government continues to support international-operated SME by promoting rapid transformation in innovation program (New Economic Model, 2011-2020). With strong and consistent support from the government in cultivating innovation culture, it is believed that SME has a great potential to further increase its share of total export, which is recorded at 17.9% in 2019.

Innovation is closely related with design management capability, which involves creative visualization of concepts, plans, and ideas that can be utilized to create something new to the market (Fernández-Mesa et al., 2013). Apanasovich et al. (2016) represent innovation as capability in placing new or improved product on market. An innovation system contains variety of organizations that covers both internal and external entities (Deng et al. 2013). Innovation capability is found to be established by having cooperation between research and business industry (Apanasovich et al, 2016), technical organizations, venture capitalists, specialist financial institutions, and patent offices, amongst others (Dabić et al, 2018). Interestingly, Jeon and Degraival (2019) identify three methods of innovation that can be employed to enhance SME innovation capability. In closed innovation, SME employ their in-house capability and avoid from establishing any collaboration with external parties. In open local innovation, SME rely heavily on the government support for funding or establish collaboration with research institutions. Finally, open global innovation where SME search for cooperation with foreign research partners. Depending on the objectives and organizational capability, SME can employ any of these methods to promote and establish innovation capability.

While globalization is expected to stay, open innovation deserves great attention from SME as an arsenal in the global market (Jeon & Degraival, 2019). Earlier research highlights innovation capability as an important capability for internationally operated firms (Prange & Verdier, 2011). Oura et al (2016) empirically shows that innovation capability is significant to explain SME export performance. Asemokha et al. (2019) have similar findings when conclude business model innovation is a sound and concrete driver in determining SME international performance. A scrutinize examination has been done and viewed that technological innovation has positive impact on export performance while marketing innovative is found to draw negative impact on export performance (Silva et al., 2017). Literature indicates that innovation capability is critically needed for exporting SME to allow them to adapt their existing capability and to adopt new capability in foreign markets. The capability is important as international business activity is said to be more challenging as they are characterized with distinctive business model, culture, and customers' profiles compared to domestic SME. Therefore, SME that venture internationally need to concurrently exploit its existing innovation capabilities and explore new innovation

capabilities to operate efficiently in the foreign market, which we refer this capability as innovation ambidexterity.

Innovation ambidexterity requires firms to split and balance the available resources into two different activities (Tushman & O'Reilly, 2013). The first common area of ambidexterity is capability in generating new idea and realize the idea into new product. The second area emphasizes on capability in exploiting existing resources and transform them into new products. Export performance is more reliant for ambidextrous export SME either by balancing exploitation and exploration activity or by switching between the activities (Yan et al., 2020). Though greatly known with the signature as resource-constrained entities, Lubatkin et al. (2006) notice that strategic ambidexterity is still appropriate for SMEs entrepreneurs as they engage more directly to business and more knowledgeable in exploiting and exploring business competencies and opportunities. In addition, its simple business structure allows SMEs owners-managers with implanted international entrepreneurial orientation to have full control over the firms' resources.

International entrepreneurial orientation composes of innovation and proactive attitude as well as readiness to deal with calculated risk (Hernández-Perlines, 2016). Significantly, this orientation can be utilized to establish SMEs internal capabilities (Johansen & Knight, 2010). For example, the orientation is said to influence the establishment of sense and seize capability (Buccieri et al., 2020), competitive strategy (Fernandez et al., 2016), learning capability and finally uses to analyze export performance (Karami & Tang, 2019). Obviously, innovativeness, proactiveness and risk-taking attitudes are useful tools that enable SME to exploit and explore opportunities available in the foreign countries. International business is highly competitive by nature and dealing with international market requires SME to simultaneously exploit the existing and explore new capability. However, little is known about the role of international entrepreneurial orientation in the development of innovation ambidexterity in international SME. Therefore, this article aims to explore the extent to which international entrepreneurial orientation affects innovation ambidexterity.

2.0 INNOVATION AMBIDEXTERITY

Innovation ambidexterity is defined as simultaneous or subsequent exploitation and exploration of the existing innovation. It is related to the use of existing technological and non-technological innovation while simultaneously or subsequently explores new technological and non-technological innovation. innovation ambidexterity outlined by Chu et al., (2019) is read as “exploitation (proximity to existing technologies, products and services) and exploration (proximity to existing consumer segments)”. Ambidextrous SMEs simultaneously exploiting the existing business model and exploring possible opportunities and threats (Wofford et al., 2020). Scott (2014) explain exploitative technological innovation involves small changes made on the products or manufacturing technology, whereas explorative technological innovation involves major changes on the firms' products and technology. Innovation ambidexterity is the key aspect to meet “*the needs of existing customers or market (exploitative) and “to grasp the latent needs of customers or markets (explorative)”* (Li et al., 2008). Recent development in the

field of innovation has led to the renewed interest in innovation ambidexterity as the new source of competitive advantage as it allows businesses to respond effectively to the changing international business environment.

A product that is designed based on the existing knowledge technology and competencies indicate exploitation action (Stattner & Lavie, 2013). The action is related to upgrading, modifications, improvement and extension of the existing products and processes (Wei et al. 2014). On the other hand, exploration action in term of technological innovation is related to the development of product as well as technologies that is greatly different from the existing product (Voss & Voss, 2013). The output from exploration activity is developed based on knowledge and competence that firm has not utilized in the past (Danneels & Sethi, 2011). Both exploitative and explorative activities are meant for productivity and profitability enhancement (Wei et al. 2014).

Along with the growth in the importance of technological innovation ambidexterity, there is an increasing concern on the role of non-technological innovation ambidexterity in determining business success. Non-technological innovation aspect covers activities such as to understand customers, competitors, channel, and market environment (Yu et al., 2014). Non-technological exploitation activity is designed to retain and increase sales from the existing customers, while non-technological exploration activity target new customers (Voss & Voss, 2013). O'Reilly and Tushman (2004) explain firms may utilize or enhance the existing marketing approach in meeting the demand of their customers in a stable market environment but in a new and dynamic market, firms may establish new marketing approach for performance sustainability. SMEs owners-managers have a great role in designing new product, process or marketing approach (Oksanen & Rilla, 2009). Designing new invention requires imaginative skill, which Prashantham (2004) explains the skill is shaped based on entrepreneurs' education, knowledge and experience. In the new global economy sphere, SMEs entrepreneurs should become the core drivers who initiate, nurture, and facilitate innovation ambidexterity activity. This study believes international entrepreneurial orientation serve as fundamental property for the establishment of innovation ambidexterity.

3.0 INTERNATIONAL ENTREPRENEURIAL ORIENTATION

Entrepreneurship reflects capability to identify opportunities for products in market, as well as capability to coordinate resources aims in realization of that opportunity to make the product available in the society (Dabić et al, 2018). Entrepreneurship is a relevant concept for SME operating in domestic market as well as SME that undertake international trade activity. International entrepreneurial orientation composes of capability to identify and explore business opportunities in foreign markets, and consequently, requires innovative and proactive attitude together with risk-taking attitude (Zhuo et al., 2010; McDougall & Oviatt, 2000). The cultivation of international entrepreneurial culture in international new ventures enable them to concurrently sense and seize opportunities to develop incremental and disruptive innovation (Buccieri et al., 2020).

Johansen and Knight (2010) ideally describe international entrepreneurial orientation as part of SMEs resources which can be referred to as entrepreneurs' capabilities. Scholars explicate that firms' resources i.e., international entrepreneurial orientation, only give a meaningful impact on performance if it is managed and utilized in creating something new for the firms (Jantunen et al., 2005). This orientation can be utilized to establish SMEs internal capabilities (Johansen & Knight, 2010) and competitive strategy (Fernandez et al., 2016). Importantly, this orientation is an elementary component for competitiveness and significantly explain SMEs international business activity (Slevin & Terjesen, 2011). A contention has been made by Acosta et al., (2018) that SME with innovative, proactive and prone take risk would be better in international performance. Instead of having competitive aggressiveness and autonomy in the framework, this paper is consistent with Acosta et al (2018) in highlighting innovativeness, proactiveness and risk-taking attitude as dimensions in defining international entrepreneurial orientation.

Innovativeness is entrepreneurs' capability in designing new products, and process, or modifying the existing products, and process (Najib & Kiminami, 2011). Offering existing product in the foreign market can be destructive for SMEs due to changes in marketing trend and customers preferences. As a result, firms are required to design new marketing approach and products in meeting those demands. Innovation is also said to influence competitive strategy as it enables firms to launch new offerings to the society (Hernández-Perlines, 2016). To remain relevant internationally, creation and modification of new and existing products, process, marketing strategy should be part of the routine procedure. For this reason, innovativeness is portrayed as a critical component of for SMEs operating in international marketplace (O'Cass & Weerawardena, 2009).

Proactiveness is the processes aimed at anticipating and acting on customers' future needs and related to the introduction of new products and brands ahead of the competitors (Lumpkin & Dess, 1996). This orientation is largely influenced by entrepreneurs' continuous effort in anticipating future products (Rausch et al., 2009). Proactive entrepreneurs possess high tendency to seek for knowledge in anticipating new products that are consistent with the future changes in customers' lifestyles (Pérez-Luño et al. 2011; Hernández-Perlines, 2016). In this domain, SME are viewed with established capability in changing and shaping international business environment and most common, they are the pioneers in the industry or markets. However, proactiveness quality does not merely indicate SMEs as the first to enter a market or the first to introduce new products. It says that SMEs may penetrate the market soon after competitors, but they have unique capability to capture customers' demand that are by manipulating the trends and creating new demand in the market.

Finally, risk-taking orientation is defined based on Lumpkin and Dess (1996) as entrepreneur's willingness to make large resource commitments, with the aim to increase the value of the firm by seizing opportunities in the international marketplace. An individual with entrepreneurship traits is strongly believed to absorb potential risks in expanding their businesses abroad. Risk taking allows business to manage risk, reduce cost and initial outlay (Hernández-Perlines, 2016). Risk is explained as the "consequence of uncontrollable change but it is possible to be calculated" (Ripsas, 1998). The main concern of the concept is to decide "what to do" and "how to do it" in uncertain future states. Doing business in foreign countries requires SMEs to deal

with unique and distinctive risks since the market exposes entrepreneurs with unfavourable conditions i.e., political risk, economic risk, social risk, culture risk, financial risk as well as business risk.

4.0 PROPOSED RESEARCH MODEL

This study intends to conceptually relate international entrepreneurial orientation and SME' innovation ambidexterity, which this study refers to as technological and non-technological innovation ambidexterity (refer Figure 1). The present study addresses international entrepreneurial orientation as a dimension with three dimensions namely, innovativeness, proactiveness and risk-taking attitude. This paper observes conceptually the extent to which innovativeness, proactiveness and risk-taking attitudes affect the establishment of technological and non-technological innovation ambidexterity among internationally operated SME.

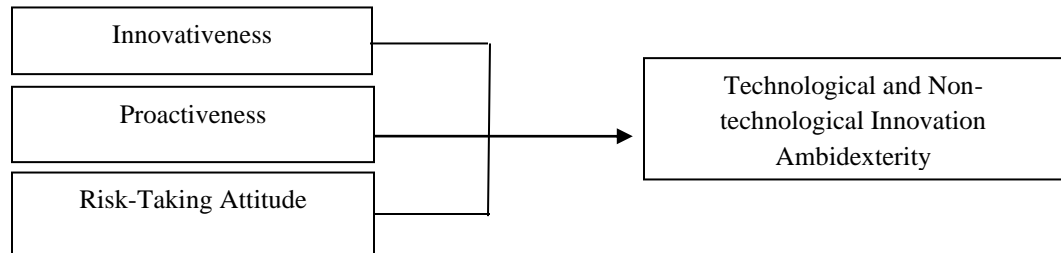


Figure 1: Proposed Research Framework

5.0 CONCLUSION

Innovation ambidexterity is viewed as a new competitive tool for SME to remain significant in international trade activity. It allows SME to exploit opportunities in the foreign market and at the same time to balance it with exploration activity. Adoptability and adaptability determine business survival as it promotes SME to keep on continually respond to the changes in the market. SME operating in foreign market, is strongly characterized with innovativeness, proactiveness and risk-taking attitude. This orientation is believed to be more meaningful when it is utilized to establish SMEs innovation ambidexterity. Although in the original paper autonomy and competitive aggressiveness are used to measure international entrepreneurial orientation, this paper takes a stand by only focusing on the most studied dimensions in entrepreneurial research, such as innovativeness, proactiveness and risk-taking attitude. International entrepreneurial orientation is a valuable input that should be employed for the establishment of technological and non-technological innovation ambidexterity. Technological and non-technological innovation ambidexterity play a significant role in business survival; hence it must be well-established. This study provides a research review that relates international entrepreneurial orientation and innovation ambidexterity as survival tools for SME existence in the global market.

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