

## **Impact of Innovation Strategy on Performance: A Study of Indonesian SMEs**

Siti Nur Azizah<sup>1</sup>, Much. Riyadus Solichin<sup>2</sup>, Ika Susilowati<sup>3</sup>

### **Abstract**

*This study aims to examine the impact that innovation strategy has on innovation performance in the context of Indonesian small- and medium-sized enterprises (SMEs), with a specific focus on entrepreneurs or owner-managers. Additionally, it investigates the roles that innovation culture as a mediating variable and government assistance as a moderating one play in this relationship. There is a lack of existing literature on innovation performance in Indonesian SMEs, particularly in terms of the standards for assessing SMEs' performance. The existing body of literature has demonstrated a considerable correlation of innovation culture with innovation performance. However, the impact of this phenomenon on SMEs remains uninvestigated. One study utilized a questionnaire to gather data from SMEs in Central Java, Indonesia. A total of 150 surveys were collected and subsequently analyzed using Structural Equation Modeling (SEM). The study found that the proactive and growth risk orientation strategies had a positive impact in building an innovative culture. This means that the presence of an innovation culture was correlated with a better innovation performance. The existing literature suggests that the innovation culture serves as a moderating variable in the association between proactive strategy and innovation performance. However, the current empirical evidence does not suffice to substantiate the claim that innovation culture is mediating growth strategy with innovation performance. Empirical evidence demonstrates that government funding enhanced the influence of innovative culture on innovation performance. Finally, explanations in regard to the research implications were provided herein.*

**Keywords:** *Government Support, Growth Risk Orientation Strategy, Innovation Culture, Innovation Performance, Proactive Strategy.*

### **1. Introduction**

Anwar, Zulfiqar and Shah (2018) assert that small and medium-sized enterprises (SMEs) substantially influence a country's total economic productivity. Like several other developing nations, SMEs hold considerable importance in Indonesia's economic advancement. They significantly drive the national economic activity, all while substantially contributing to over 50% of the country's gross domestic product. These entities have a major presence, constituting around 99% of the total number of companies across various scales while contributing to 92% of employment generation (Tambunan, 2021). In addition to generating employment and contributing to GDP growth, SMEs are anticipated to significantly play some part in expanding Indonesia's exports. However,

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<sup>1</sup> Universitas Putra Bangsa, Kebumen, Indonesia, sitinuraziz@yahoo.com

<sup>2</sup> Universitas Putra Bangsa, Kebumen, Indonesia

<sup>3</sup> Universitas Putra Bangsa, Kebumen, Indonesia

the existing statistics and literature indicate that SMEs, particularly in Indonesia, need greater helps when they engage in export activities compared to larger enterprises. According to the Minister of Cooperatives & SMEs, the proportion of exports by SMEs in Indonesia's overall export volume consistently remains relatively low, as the national data indicates. In 2022, the SMEs' contribution amounted only to a modest 15.59%.

In contrast to their larger counterparts, Indonesian SMEs have a comparatively lower capacity to capitalize on export prospects resulting from trade liberalization. Regarding export performance, Indonesian SMEs lag behind their counterparts in other ASEAN countries and significantly underperform than those in developed economies (Revindo et al., 2019). In the present scenario, SMEs are required to augment their business performance and competitive edge by enhancing their inventive skills in order to survive and develop. Thanks to this, SMEs play a crucial role in the economy since they foster innovation and promote competition across all economic sectors. However, the significance of innovation depends on how pivotal it is in the long-term success of a business.

Unfortunately, a dearth of comprehension persists with regards to the need for and evolution of an innovation culture inside SMEs themselves. Furthermore, information pertaining to the deliberate efforts aimed at promoting innovation, developing a conducive infrastructure, adopting behaviors that shape market and value orientation, and producing an environment that facilitates the implementation of innovative practices is still scarce (Arsawan et al., 2022; Muna et al., 2023). This gap is particularly evident in the context of Indonesian SMEs, rendering them unable to enhance their innovation performance.

For this reason, it is imperative that the Indonesian government actively promote and foster a conducive environment for entrepreneurs to cultivate innovation, creativity, and proactivity. This strategic approach is crucial in propelling the nation towards an innovation-driven economy, thereby enhancing its competitiveness, creativity, productivity, and global standing. SMEs must embrace an innovation-driven culture and endeavor to identify effective strategies for improving their offerings, services, operational procedures, and business frameworks (Wanof & Gani, 2023; Zhang et al., 2023). Given the recognition of innovation culture as a fundamental element, the Indonesian government needs to actively foster and encourage the cultivation of innovation culture inside SMEs (Lita et al., 2018). Establishing an innovation culture within SMEs will enable them to greatly enhance their innovative performance.

To analyze what innovation culture has to do with innovation performance, it is important to thoroughly examine what the Indonesian government aims in revitalizing its economy via the promotion of an innovative culture. Currently, the Indonesian government has implemented policies to enhance SMEs' productivity and bolster its national economic growth. The resurgence of SMEs can be achieved by focusing on three essential factors: consistency, innovation, and synergy.

While studies on innovation have been conducted extensively, more literature examining the elements that contribute to developing an innovation culture that effectively promotes innovation performance is needed. Therefore, this study aims primarily to explore the innovation performance of SMEs in Indonesia and identify the key factors that could help cultivate an innovation culture. Arsawan et al. (2022) suggest that an innovation culture is relatively nascent in Indonesia. This draws a significant interest from researchers and encourages them to explore the topic within the context of SMEs. According to Lita et al. (2018), empirical evidence suggests that Indonesian SMEs may have little verified advantages when embracing an innovation culture. Furthermore, it is noteworthy to mention that a considerable body of studies on innovation culture has mostly concentrated on the workforce and larger corporate entities. On the contrary, those

examining the effect of innovation culture on the operation effectiveness of smaller firms are rarely carried out (Chang et al., 2017; Safrizal & Julianti, 2023).

Therefore, such an investigation is highly worth considering. Bearing this in mind, this research was conducted in Central Java, Indonesia. The province was a region actively developing SMEs with its SME upgrading program. It implemented the program by developing an integrated service center. This program had been implemented since 2020 to encourage SMEs to rise from adversity as a result of the coronavirus disease 2019 (COVID-19) pandemic hit the world. SMEs themselves were the ones most gravely affected by the pandemic. To get a comprehensive grasp of the subject matter, recognizing the significance of comprehending this intricate scenario was of the utmost importance. Such comprehension would significantly enhance the analysis of, and, in turn, enable a more adequate explanation of, innovation performance observed in Indonesian SMEs. This study looked into how innovation strategy correlated to the establishment of an innovation culture. It was expected that implementing an innovation strategy would have a favorable effect on the cultivation of an innovation culture. This would ultimately lead to improved innovation performance within the SME sector in Indonesia. Finally, government support was also analyzed as a moderating variable in enhancing innovation performance.

## **2. Literature Review**

### **2.1 Innovation Culture**

Innovation culture refers to the collective ideas, attitudes, and assumptions held by individuals inside a business, which serve as facilitators in its transformation process (Ren & Song, 2021). According to Sattayaraksa and Boon-it (2016), it encompasses the integration of individual beliefs, attitudes, and behaviors, with the overarching objective of enhancing service quality, product performance, and fostering innovation. While its concept is frequently utilized, it needs a thorough and universally accepted definition (Yun et al., 2020). The available literature demonstrates that culture is significantly associated with creativity (Černe et al., 2016). However, implementing new ideas and practices might be difficult when a business lacks a supportive culture that can encourages innovation (Büschgens et al., 2013). Furthermore, the existence of organizations that actively engage in promoting and motivating their workers to contribute and share their skills and knowledge internally is crucial in supporting innovation (Julia et al., 2010). Hence, it can be argued that a company's members collectively embrace and disseminate values, attitudes, and behaviors that cultivate the growth of an innovative culture (Jung et al., 2009). Making a good use of this culture could foster the expansion and progression of the firm, concurrently obtaining fresh perspectives that augment the innovation process.

### **2.2 Innovation Performance**

Brettel and Cleven (2011) posit that innovation culture is a strategic resource that lacks tangibility and may be evaluated through four distinct dimensions. These attributes encompass (i) an emphasis on technological advancements, (ii) a proclivity for acquiring knowledge, (iii) a readiness to engage in ventures with uncertain outcomes, and (iv) an inclination towards anticipating future market patterns. A study examined the significance of cultivating a culture of innovation inside organizations in relation to its impact on market orientation, organizational learning, and the facilitation of openness towards new ideas, technology, markets, risk-taking, and the acceptance of failure (Chang, et al., 2011). The innovation culture notion frequently comprise many dimensions pertaining to the facilitation of original ideas and the capacity of people to engage in innovation, including market orientation, organizational learning, and risk tolerance.

### 2.3 Government Support

The support that government offers is often regarded as a crucial element within the external environment (Rulfs & Wobbe, 2023). Government assistance can be classified into two distinct categories: official and informal. Government institutional support includes a variety of measures aimed at promoting economic development and fostering innovation. These policies can take a range of forms such as tax incentives, subsidies to foster research and innovation, procurement efforts, provision of technical help, and legislative regulations. Another form of government institutional support is the provision of aid by the government to firms through the cultivation of political relations. Shu et al. (2018) suggest that government institutional aid predominantly refers to the provision of official institutional support by the government.

### 2.4 Innovation Strategy

Innovation strategy has been defined by many. Innovation itself involves the modification of existing knowledge or practices to bring about change. According to Hilman and Kaliappen (2015), innovation strategy refers to the capacity to generate novel ideas or modify existing ones and, later, take action by effectively employing them. In Jones and Linderman's (2014) study, innovation strategy is conceptualized as the organizational capacity to capitalize on emerging possibilities to enhance its competitive edge effectively.

### 2.5 Hypotheses Development

#### 2.5.1 Innovation Strategy and Innovation Culture

This essay presents an argument for the indispensability of a proactive, creative strategy in SME entrepreneurship. This approach involves the need for SME entrepreneurs to exhibit ingenuity in promoting novel products and services in the marketplace since this empowers them to contend with larger businesses effectively. Therefore, SMES must remain watchful in pursuing unique and creative options. Rosli and Sidek (2013) found that SME entrepreneurs had challenges to operate independently. To deal with this, organizations such as SMEs need to cultivate a culture that promotes innovation within their workforce. Moreover, adopting a growth risk orientation strategy has substantial importance in the context of SMEs, specifically about the possible risks involved in introducing novel products and services. It is therefore important for entrepreneurs to cultivate a conducive atmosphere that encourages and incentivizes employees to embrace daring and high-risk approaches in their marketing pursuits. Patel and D'Souza (2008) believe that cultivating a risk-oriented strategy inside an organization can facilitate organizational innovation.

According to Halim, Ahmad and Ramayah (2019), employees who adopt an innovative culture within an organizational setting are more inclined to develop ideas that positively impact the firm's overall success. The observed events can be related to the existence of an innovation culture inside an organization, which further encourage its members to analyze the business environment and adapt to it. Therefore, the innovation strategy may be defined as how the innovation culture is manifested tangibly and has a beneficial influence on the overall innovation strategy. Based on the above discourse, the present investigation develops the following hypotheses:

H1: The utilization of a proactive, creative strategy is associated in a positive way with the cultivation of an innovation culture.

H2: The strategy of growth-risk orientation influences the innovation culture favorably.

#### 2.5.2 Innovation Culture and Innovation Performance

The cultivation of an atmosphere that fosters the development of creative practices inside ordinary business activities is crucial for organizations. Dobni (2008) argue that the

notion of innovation culture comprises a multitude of fundamental components. These components encompass (i) the objective of cultivating innovation, (ii) the establishment of a conducive infrastructure to support innovation, (iii) the adoption of suitable market-oriented behaviors, (iv) the harmonization of values with creative practices, and (v) the facilitation of an environment that promotes the implementation of novel ideas. Thus, it can be said that a culture fostering innovation enhances organizational performance. For this reason, being prosperous is crucial for a commercial enterprise to foster its organizational culture.

Given the abovementioned factors, Indonesian SMEs must embrace a management approach that fosters and maintains a culture of innovation by promoting active engagement. This scenario may be achieved by implementing an efficient communication and networking tactics, cultivating a culture that embraces adaptation, empowering individuals, promoting risk-taking strategy, and prioritizing ongoing learning and knowledge acquisition. Hanifah et al. (2020) suggest SMEs to employ individuals with creative attributes to achieve a significant degree of innovative performance. The phenomena may be attributed to the fact that persons with creative impulses frequently encounter distinctive, inventive, and unpredictable difficulties and these manifests robust, valuable, and essential skills and talents. During the initial phases, it becomes apparent that innovative human capital promotes innovation and progress inside an organization. The present study argued that fostering an innovation culture inside SMEs could improve their creative performance. This phenomenon might be ascribed to the substantial impact of the aforementioned culture on overall performance.

H3: An organization's innovation culture has a favorable link with its innovation performance.

### 2.5.3 Mediating Influence of Innovation Culture

Avlonitis, G.J. and Salavou's (2007) study showed that entrepreneurs who demonstrated proactive and risk-tolerant behaviors had a higher likelihood of creating new products, leading to increased profitability for their firms due to the superior performance of these new offerings. The importance of innovation in attaining success was emphasized on how only organizations that are proactive and prepared to take chances can develop products. These firms are also inclined to foster a corporate culture that encourages and incentivizes employees to contribute to its innovation performance.

Nevertheless, in regard to SMEs, their owners-managers are in desperate need of help to cultivate innovation independently. This is because promoting inventiveness among individuals is more likely to provide positive outcomes when it is implemented by the proprietor or managerial personnel. To optimize innovation performance, the owners/managers must foster a culture of innovation across the organization. The study conducted by Kim and Yoon (2015) provided an empirical evidence that substantiates the claim that leadership employing proactive and creative strategies is significantly linked to workers' views of an innovative organizational culture within their respective work groups.

Furthermore, a previous study done by Garc'ia-Granero, et al. (2015) had empirically shown that the risk-taking strategy employed by managers had a direct impact on the efficacy of innovation results. This strategic approach further contributes to the establishment and maintenance of a specific aspect of the organizational atmosphere that assists individuals within to efficiently manage any risk possibly emerging when engaging in creative endeavors. Therefore, SMEs need to build cultural norms that promote proactive creativity and a growth-oriented mentality among their employees. This would facilitate their product development efforts and ultimately enhance their innovation performance. Based on the factors mentioned above, it is only reasonable to propose that an inventive culture inside an organization has a likelihood to improve its overall performance in the realm of innovation. Thus:

H4: The presence of an innovation culture affects the connection between proactive, creative strategy and the performance of innovation.

H5: Innovative culture has a positive effect on the link between the growth-risk orientation strategy and innovation performance.

#### 2.5.4 Moderating Influence of Government Support

Government assistance plays a crucial role in making the correlation between SME's innovation culture and its prosperity stronger. The initiatives encompass a wide range of forms, such as providing financial aids, organizing technical guidance and training, providing services for permit extension and consulting, marketing, market research, and infrastructural needs. The main goal of these programs is to foster an environment of innovation within organizations, promoting employees to demonstrate an increased inclination towards creativity and innovation (Shu et al., 2018). Based on this explanation, the following hypothesis is postulated.

H6: Government support reinforces the association between an innovative culture and innovation performance.

### 3. Methods

A cross-sectional design was considered suitable for use in this study owing to its capacity to obtain data that precisely reflects situational phenomena. The survey was administered via a standardized questionnaire. Participants were requested to provide their responses to the survey. The measuring items were derived from previous studies and subsequently adjusted to align with the specific research environment. In this context, innovation performance could be seen as the deliberate efforts to enhance the value, functionality, and effectiveness of goods, processes, and procedures (Damanpour & Gopalakrishnan, 2001). The questionnaire had six inquiries sourced from Zarina et al. (2009). Each topic was measured using a five-point Likert-type scale that ranged from "strongly disagree" response to "strongly agree" one. According to Dobni's (2008) scale development paradigm, this stage entails constructing a comprehensive collection of products that can effectively capture the fundamental characteristics of the innovation culture. The culture of innovation involves people who possess creative abilities or demonstrate market leadership, encompassing certain behaviors and positions within the culture that employees adopt and embrace. Meanwhile, government support employs many vertical and horizontal support metrics as proposed by Wei and Liu (2015). Measurement is an essential component of an innovation strategy. Borch and Madsen (2007) provide a framework that enables innovative products and services to be developed and implemented. The many elements of the present study examined the proactive creative method and growth risk orientation technique.

The study population was SMEs in Indonesia, and 150 SME owners and managers in Central Java, Indonesia served as the samples. Since this study focused on creative SME entrepreneurs and helping them improve their business by providing merit-based business opportunities, they were selected as respondents purposively using the non-probability sampling method. From them, the data on creative SMEs running various businesses such as trading, handicrafts, travel, furniture, food, and beverages were collected from the MSE Office of Cilacap, Banyumas, and Kebumen.

### 4. Result and Discussion

The demographic profile of the participants in this research is shown in the following table.

Table 1. Characteristic of respondents

Characteristic	N=150	%
Sex		
Male	104	69
Female	46	31
Education		
High school	57	38
Bachelor	86	57
Master	7	5
Business age (Year)		
1-3	51	34
4-6	21	14
7-10	50	33
>10	28	19
Turnover/month		
< 50 million	95	63
50-100 million	35	23
> 100 million	20	14
Business field		
Travel	6	4
Food and beverage	20	13
Furniture	15	10
Trading	75	55
Craft	30	20

The oversight of debt was mostly undertaken by male individuals, whilst the pursuit of education was predominantly led by bachelor and high school graduates. The companies had operated mostly for 1 to 3 years. The majority of turnover reported by research respondents was less than 50 million, with trading enterprises being the dominant sector.

#### 4.1 Assessment of the Measurement Model and Outer Model

The measurement model involved the assessment of many aspects such as the outer loading, validity, and reliability of the items and constructs under investigation. Validity could be observed from two distinct perspectives, specifically convergent and discriminant validities (Hair et al., 2020).

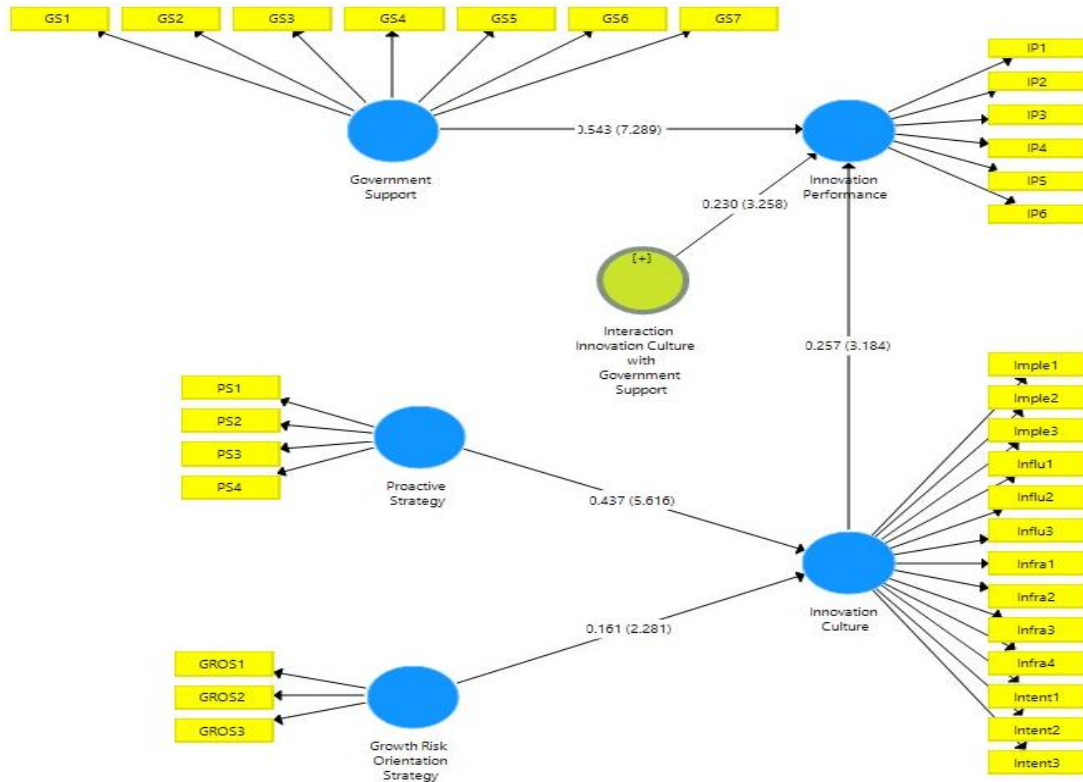


Figure 1. Structural Model

The internal consistency reliability value had provided feasible results. It was found that the composite reliability and Cronbach alpha values for the constructs of proactive strategy, growth strategy, innovation culture, government support, and innovation performance were over 0.70. This means the construct in the current research had a good reliability.

Table 2. Summary of output measurement model (Outer loading, Composite Reliability, Cronbach Alpha, AVE)

Variable	Items	Outer Loading	CR	CA	AVE
Proactive Strategy	PS1	0.812	0.877	0.815	0.642
	PS2	0.788			
	PS3	0.750			
	PS4	0.852			
Growth Orientation Strategy	GROS1	0.791	0.840	0.716	0.636
	GROS2	0.762			
	GROS3	0.838			
Innovation Culture	IMPLE1	0.796	0.946	0.939	0.576
	IMPLE2	0.801			
	IMPLE3	0.828			
	INFLU1	0.739			
	INFLU2	0.725			
	INFLU3	0.750			



	INFRA1	0.745			
	INFRA2	0.737			
	INFRA3	0.734			
	INFRA4	0.742			
	INTENT1	0.742			
	INTENT2	0.754			
	INTENT3	0.767			
Government Support	GS1	0.816	0.942	0.928	0697
	GS2	0.881			
	GS3	0.818			
	GS4	0.800			
	GS5	0.842			
	GS6	0.832			
	GS7	0.853			
Innovation Performance	IP1	0.835	0.946	0.932	0.747
	IP2	0.883			
	IP3	0898			
	IP4	0.858			
	IP5	0.893			
	IP6	0.814			

The obtained AVE (Average Variance Extracted) value, a metric used to assess convergent validity, was consistent with the proposed guideline (Sarstedt, Ringle, and Hair, 2020), i.e., greater than 0.50. This means the construct under investigation in this study demonstrated convergent validity, indicating that it accounted for a minimum of 50 percent of the variations observed in the items.

#### 4.2 Inner Model Assessment

The evaluation in the structural model encompassed several activities, such as evaluating the statistical collinearity, determining the coefficient of determination ( $R^2$ ), assessing the construct cross-validated redundancy ( $Q^2$ ), and evaluating the statistical significance and relevance of route coefficients. The statistical collinearity served as a mechanism to prevent the occurrence of multicollinearity inside the research model. The evaluation of multicollinearity involved the examination of Variance Inflation Factor (VIF) value. A VIF value of over 5 suggested the presence of potential collinearity issues among the predictor constructs. Meanwhile,  $R^2$  is a useful metric for quantifying the proportion of variance in endogenous variables that the exogenous variables could explain. The assessment criteria for  $R^2$  were derived from the perspective of Hair, Howard, and Nitzl (2020), who asserted that  $R^2$  was a metric that varied between 0 and 1. The larger values denoted a better degree of explanatory capability. According to the established criteria, 0.75, 0.50, and 0.25 for  $R^2$  values could be classified as considerable, moderate, and weak, respectively (Hair et al., 2020). The results of the statistical collinearity analysis can be seen in Table 3.

Table 3. Statistical collinearity analysis results

Variable	VIF
Innovation Culture	1,279
Government Support	1,277
Growth Strategy	1,075
Proactive Strategy	1,075

As can be seen in the table above, the VIF values for all exogenous constructs were below the threshold of 5. This indicates that no collinearity issue was found among the predictor constructs. In the following table, the outcomes of the examination pertaining to the coefficient of determination and the evaluation of cross-validated redundancy are shown.

Table 4. Q square and R Square

Variable	R Square	Q Square
Innovation Culture	0.254	0.136
Innovation Performance	0.543	0.392

The research found that the R-square value for the innovation culture variable was 0.254. This value indicates that the predictor variables, namely proactive approach and growth strategy, accounted for 25.4 percent of the variance in explaining innovation culture. This percentage fell within the medium range. Meanwhile, the R-square value for the innovation performance variable was 0.543. This suggests that the predictor variables, i.e., proactive strategy, growth strategy, government support, and innovation culture, were collectively responsible for 54.3 percent of the variance in explaining innovation performance, placing them in the large category.

The research also found that the Q-square value for innovation culture variable was 0.136, indicating that the proactive approach and growth strategy variables possessed a moderate level of predictive accuracy in relation to innovation culture. As for the innovation performance, the study found that the Q-square value was 0.392, suggesting that the proactive approach, growth strategy, government assistance, and innovation culture factors had a substantial predictive accuracy for innovation performance. Table 5 displays the analysis outcomes for statistical significance and the route coefficient significance.

Table 5. Hypothesis test for direct influence and moderation

Relationship between variables	$\beta$	S. D	t Statistics	p Values
Proactive strategy -> Innovation Culture	0.437	0.080	5,477	0,000
Growth Risk Orent. Strategy -> Innovation Culture	0.161	0.074	2,190	0.029
Innovation Culture -> Innovation Performance	0.257	0.081	3,158	0.002
Government Support -> Innovation Performance	0.543	0.077	7,075	0,000
Interaction of Innovation Culture with Government Support -> Innovation Performance	0.230	0.067	3,429	0.001

From the analysis, it could be seen that proactive techniques had been empirically demonstrated to have a significant beneficial effect on the attempt to develop an innovation culture. The path coefficient value was 0.437 and p-value was 0.000. This provided empirical evidence to support this statement. This proved that using proactive tactics fostered the development of an innovation-oriented culture. The investigation also found a significant statistical link between the growth strategy and its favorable impact on

the culture of innovation. The fact that the path coefficient value was 0.161 and the p-value was 0.029 provided empirical evidence that enhancing the growth strategy fostered the development of a culture characterized by creativity. The current research also revealed that the link between innovation culture and innovation performance was significant and positive, as it was found that the path coefficient was 0.257 and the p-value was 0.002. This suggests that enhancing innovation culture could effectively promote higher levels of innovation performance. The findings indicate that the provision of funding by the government made a substantial contribution towards enhancing innovation performance. Nevertheless, the hypothesis did not establish a causal relationship between these two variables. Empirical evidence has demonstrated that governmental assistance had a significant role in strengthening the association between innovation culture of innovation and innovation performance, leading to a good outcome. The p-value of 0.001 provided support for the presence of a statistically significant interaction between innovation culture and performance. Furthermore, the anticipated value for the path coefficient of this interaction was 0.230. It is therefore inferred that the allocation of public aid to organizations could enhance the impact of their creative culture on the effectiveness of innovation.

#### 4.3 Mediation test

The mediation analysis in SmartPLS was carried out by looking at the output of the specific indirect effect, one of the output features in the SmartPLS software, to see the mediation effect. The summary of this analysis is shown in Table 8.

Table 6. Mediation test

	$\beta$	St. Dev	T Statistics	P Values
Growth Risk Orient. Strategy -> Innovation Culture -> Innovation Performance	0.041	0.026	1,597	0.111
Proactive strategy -> Innovation Culture -> Innovation Performance	0.112	0.042	2,687	0.007

The investigation found no empirical evidence to support the notion that an innovation culture served as a mediating factor in the growth strategy-innovation performance link. This implies that growth strategy and innovation culture had a direct effect on innovation performance. In essence, it is possible to enhance innovation performance by implementing a growth plan, and thus bypassing the need for an innovation culture. The research found that innovation culture indeed played a mediating role in the proactive strategy-innovation performance link. Making use of a proactive approach helped organizations develop a culture that prioritized innovation, hence resulting in an enhanced innovation performance.

The empirical evidence supported the idea that proactive strategy significantly influenced innovation culture (H1 was confirmed). SMEs actively pursued a strategy to improve and modify their products. At the same time, some individuals had the tendency to engage in endeavors that included inherent risks and the preference for employing bold strategies to achieve goals within their organizational context. Therefore, there exists the possibility of augmenting the culture of invention.

Meanwhile, the H2 that stated that growth-risk orientation strategy influences innovation culture favorably was also confirmed. The analysis results demonstrated a statistically significant correlation between implementing a growth plan and cultivating an innovative culture. This implies that implementing a growth plan would enhance the development of an innovative culture. Implementing proactive initiatives was crucial in establishing an optimal environment that fostered and cultivated creativity. This insight underscored the

ongoing endeavor of entrepreneurs to develop new and inventive solutions, leading the way in presenting groundbreaking products to the market. As a result, this would cultivate a conducive environment to foster innovation inside SMEs.

This research has a number of valuable theoretical implications. The primary goal of this study was to enrich the knowledge on the impact of resources and capabilities on innovation performance inside SMEs, specifically by examining the role of the Resource-Based View. As mentioned earlier. There is a noticeable dearth of research that simultaneously incorporates all three theories in investigating innovation culture, which holds a considerable significance within the context of SMEs. This research investigated the strategies employed by SMEs in leveraging their own resources and capacities to reach a competitive advantage by providing distinctive products and services that catered to specific niche markets (Barney, 1992). In essence, the improvement of innovation performance, which is synonymous with gaining a competitive advantage, might be achieved by leveraging the capabilities of resources and the practices associated with fostering an innovation culture over a continuous period of time. This study addressed the aforementioned limitation by effectively integrating the three theories, thereby facilitating a more holistic understanding of how resources of Indonesian SMEs could be leveraged by utilizing their organizational members' values and norms, ultimately leading to enhanced capabilities and improved performance in terms of innovation.

The confirmation of H3 suggests that cultivating a conducive environment to nurture innovation would result in improved outcomes in terms of innovation performance. In order to cultivate an innovation culture, it is imperative for SMEs to create a favorable setting to fostering and encouraging innovative practices. Consequently, the utilization of this methodology was expected to yield enhancements in the organization's innovation performance (Padilha & Gomes, 2016). The current examination of innovation culture still needs to provide conclusive evidence about its role as a mediator between growth strategy and innovation performance. It implies that the direct effect on performance is solely attributed to the growth strategy and innovation culture.

In contrast, it is possible for a growth strategy to enhance innovation performance without necessitating the establishment of an innovation-oriented culture. The investigation findings indicated that innovation culture mediated the proactive strategy-innovation performance link. According to Halim, Ahmad and Ramayah (2019), implementing a proactive approach fosters the development of an innovative culture, enhancing innovation performance.

This study found that adopting proactive and growth-oriented strategies had a positive effect on the cultivation of an innovative culture, as supported by previous scholarly investigations. A positive association was also found between the efficacy of strategy implementation and the fostering of a creative culture inside SMEs. The study's results also provided a comprehensive assessment of the effectiveness of the cultural mediation paradigm. The existence of a culture that promoted exploration had been shown to influence the level of innovation achieved positively. The notion of an innovation culture served as an intermediary in the relationship between a proactive strategy and the execution of innovation. However, it should be noted that the presence of an innovation culture only served as a mediator in facilitating a growth-oriented strategy to attain the highest level of innovation performance. The study conducted by Hanifah et al. (2020) provides valuable insights for executives who aim to apply proactive strategies to cultivate an innovative culture, hence favorably impacting the level of innovation achieved inside their organizations.

A noteworthy contribution of this research is the investigation of Indonesian government support as a factor that moderates the innovation culture-innovation performance association. As explained earlier, this study mainly aimed at examining the association between government support, innovation culture, and innovation performance. This

particular relationship has not been extensively studied in prior studies, such as in Park, Lee and Kim (2016).

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