

New Paradigms on Performance of SMEs: Reflection on Entrepreneurial Innovation in Burundi

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Abstract

According to private sector development strategy in Burundi, small and medium enterprises contribute 13% of the gross domestic product, while the expected contribution is deemed to rise to 50% in 2025. Nevertheless, the observed performance potential is hampering their contribution to Burundi's socioeconomic development. Small and medium enterprises encounter obstacles that hinder their performance which they can improve by adopting entrepreneurial innovation as a strategy. The focus of this paper was to examine how entrepreneurial innovation affects the performance of small and medium enterprises in Bujumbura, Burundi. The specific objectives of the study were to analyze the effects of product, process, organizational, and market innovation on the performance of small and medium enterprises. The resource-based view and dynamic capability theory were the main theories. Descriptive and inferential statistics were used to analyze quantitative data. The study found that process, organizational, and market innovation all had a significant effect on the performance of small and medium enterprises, while product innovation had no effect. The study recommends that small and medium business owners and managers should focus their efforts on establishing entrepreneurial innovation such as process, organizational, and market innovation to improve their performance and acquire a long-term competitive edge.

Keywords: Entrepreneurial Innovation, Performance, SMEs, Resource-Based View Theory, Dynamic Capability Theory, Burundi.

1 Introduction

The significance of Small and medium-sized enterprises (SMEs) to the economy has been noted in different studies, including by Shahjahan (2017). Shahjahan asserted that enterprises with fewer than 20 employees have increased job creation in the United States since 1963. Muathe, Wawire, and Ofaa (2013) noted that the critical drivers for most economies are SMEs and entrepreneurial enterprises.

The SME sector has been accelerating changes towards achieving Burundi's vision 2025 under the objective of developing a strong and competitive economy, as this sector generates revenue for the government, creates new employment opportunities, and reduces unemployment, poverty, and income inequality (Gilbert, 2017).

In Burundi, SMEs are found in different sectors, such as manufacturing, services, and commerce (ISTEEBU, 2021). According to the private sector development strategy (PSDS) in Burundi, the sector has contributed 13% of the GDP for 2014-2020. Despite the expected 50% contribution of SMEs to GDP by 2025, their performance has not been realized to its full potential, thus hindering their contribution to socioeconomic development. SMEs have been experiencing challenges within a fast-moving environment such as rapid worldwide competition (Kiraka, 2009; Mensah & Acquah, 2015), unfavourable government regulations that prevail, limited access to financial resources, and rapid technological development, among others. One of the key ways to combat these challenges is through entrepreneurial innovation. It is associated with the entrepreneurship and performance of SMEs. SMEs should implement innovative activities in their businesses.

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The capability of SMEs to innovate for change and satisfy the demands of their customers' markets is considered a good competitive advantage (Kiveu, Namusonge & Muathe, 2019). Entrepreneurial innovation takes different forms such as product, process, organizational, and market innovation.

Schumpeter (1934) reported that product innovation involves bringing new goods to the market that are unfamiliar to consumers and of higher quality. Forker et al. (1996), Camison and Lopez (2010), and Garvin (1987) observed how entrepreneurial innovation is key when improving the performance of firms. According to Hult, Hurley, and Knight (2004), product innovation affects the performance positively as it protects the company from competition and market threats.

Generally, process innovation is a method of improving a firm's internal operations. It can take several forms, including the development or creation of techniques and systems. For instance, technology innovation, expertise, methods, equipment, and techniques are utilized in transforming or producing a product (Gopalakrishnan & Damanpour, 1997; Wan, Ong, & Lee, 2005; Oke, Burke & Myers, 2007).

Organizational innovation entails incorporating new organizational methods into a firm's business operations to improve performance. These methods include introducing new ways of organizing work and practices, assigning tasks, and developing new methods of building relationships with other firms (OECD, 2005).

According to John (1999), market innovation is the improvement or creation of a marketing strategy. A firm must engage in market innovation daily because a company can only reach its potential customers through this channel. For example, the internet allows businesses to reach customers worldwide at a lower cost, shorter time, and with greater reach. As indicated by Rodriguez-Cano (2004) and Appiah-Adu and Satyendra (1998), firms must engage in market innovation to meet the market demands.

Therefore, different governments have initiated several programs to boost entrepreneurship. SMEs are recognized as key factors or drivers of social and economic development, employment, and wealth creation; creating competition due to their generous contributions to the economy. They keep innovating to offer chances for enhancing and adopting suitable technology (Subrahmanya, Mathirajan & Krishnaswamy, 2010).

2 Review of Literature

2.1 Theoretical Review

Resource-Based view theory, Dynamic capability theory, and Schumpeter's theory of Innovation underpinned the study.

2.1.1 The Resource-Based View Theory

Developed by Edith Penrose (1959), this theory proposed that capabilities are the knowledge employed by a firm to organize and to put resources into its unique identity and productivity which includes the firm's structure and operations, and hence, resources and capabilities are fundamental. According to the RBV theory, for the development or performance of any company, resources must be allocated in a way that can be transformed into the company's special qualities.

The theory is primarily predicated on four assumptions: heterogeneous, immobile, inimitable, and non-substitutable. Heterogeneous provides insight into various organizations' talents, competencies, and other resources. Immobility highlights resources that do not move quickly from one firm to another, such as intangible resources. Companies cannot replicate the resources, skills, and competencies used by their competitors due to these circumstances. According to Bowman and Ambrosini (2003), firms can use resources that are valuable, difficult to copy, inimitable, and irreplaceable, to gain a competitive advantage and improve efficiency, a viable strategy for surviving.

Innovation provides a means for a firm to achieve higher performance by producing outputs with valuable, rare, inimitable, and non-substitutable (VRIN) characteristics (OECD, 2009). Rumelt (1987) reported that RBV is an outstanding theory in innovation and competition since it improves performance. Entrepreneurial innovation is a capability that allows businesses to build and combine resources to bring new heterogeneous resources.

Product quality can evolve due to innovation, resulting in improved performance and competitive advantage for companies. Entrepreneurial innovation takes different forms. For instance, process, product, organizational, and market innovation can enable a firm to outperform its rivals when properly used.

According to Eisenhardt and Martin (2000), the RBV hypothesis has some flaws, such as neglecting external elements that contribute to the venture's success, such as consumers and regulations because no firm can succeed without them. RBV is entirely focused on internal causes. Entrepreneurs must be able to invest resources in true mass production to prosper and outperform their competitors, according to Barney, Wright, and Ketchen (2001) and Mckelvie and Davidson (2009).

2.1.2 Dynamic Capabilities Theory

Teece, Pisano, and Shuen (1997) developed the theory which examines how organizations attain sustained competitiveness or greater performance in a changing and dynamic environment, and it arose as a result of the resource-based theory's constraints. Dynamic Capabilities theory supports the RBV theory and goes beyond the idea of a sustainable competitive advantage which is all about VRIN resources that businesses must acquire (Dushime, Muathe & Kavindah, 2021).

Entrepreneurship, innovation, organizational learning, knowledge, and change management are all covered in this approach (Teece, 2010). Dynamic capabilities indicate the skills of the company of behaving towards the changing regulatory including laws, taxations while developing innovative products to respond to the changing market conditions (Teece & Pisano, 1997; Muithya & Muathe, 2020).

Within a rapidly changing environment when a firm needs to perform and sustain, the dynamic capabilities help the firm to use its resources efficiently and innovation is among those critical capabilities (Albaladejo & Romjin, 2000; Sok, O'Cass & Sok, 2013). The theory shows how SMEs that work in dynamic environments should increase the chances for survival as well as growth, they must enhance their dynamic capabilities (Cepeda & Vera, 2007). The theory gives a broad view of how SMEs can create value to increase their performance (Muithya & Muathe, 2020).

2.1.3 Schumpeter's Theory of Innovation

Joseph Schumpeter (1911) originated and promoted Schumpeter's theory of innovation which explains the importance of entrepreneurship and innovation in economic growth. Joseph Schumpeter explained that an entrepreneur is an agent of innovation as well as a pivot of change (Schumpeter, 1934). Schumpeter established different innovation aspects which promote economic development, and these include; "establishing new or changing existing products; the use of new production methods, the development of different market approaches, and the setting up of a different industrial design" (Schumpeter, 1934).

Therefore, innovation is unique instrument entrepreneurs utilize to bring up opportunities for different products or services. The theory explains the importance of innovation and its main purpose of establishing new products that give entrepreneurs a competitive edge compared to their rivals. Schumpeter (1942) showed that the reason behind better performance in terms of profits and investments is innovation, and the theory supports that by showing that businesses' profits performance can be gotten through entrepreneurial innovation. That's why innovation is a vital factor for growing the economy and the gain of competitive advantage for businesses.

2.2 Empirical Review

Entrepreneurial innovation takes different forms such as process, product, organizational, and market innovation, among others, that can enable a firm to outplay its rivals when properly used. Erickson and Jacobson (2010) observed that product innovation is critical for a company. It is linked to the satisfaction of the market as it provides security against market threats and competitors.

According to Camison and Lopez (2014), the performance of SMEs tends to improve as new products enter the market. In a fast-changing environment, product innovation establishes a competitive edge. The study concluded that product innovation can help firms acquire a competitive advantage, but the effect of product innovation was not assessed in the context of performance.

In contrast, Mensah and Acquah (2015) conducted a study in the metropolis of Sekondi-Takoradi and acclaimed that product innovation was positive, however not significant to the organizational performance of SMEs. They recommended SME managers focus on applying innovative activities in their companies as the results observed that innovation was responsible for more than 51% of the changes in organizational performance. Since Mensah and Acquah (2015) utilized a survey research design and the data were analysed quantitatively, the current study analysed the data both qualitatively and quantitatively, since qualitative data supplements quantitative data, and in this study, an explanatory research design was used.

H01: Product innovation has no significant effect on the performance of Small and Medium Enterprises in Bujumbura, Burundi.

Process innovation makes it possible to enhance the efficacy and efficiency of a company's operations. According to a study conducted in Malaysia, Rosil and Sidek (2013) observed that product innovation and process innovation significantly affect the performance of firms, although the effect of process innovation was not very strong compared to the effect of product innovation. For SMEs to perform, they have to introduce the process innovation as reported by Martin and Namusonge (2014) in the study carried out in Kenya.

In addition to the findings by Martin and Namusonge (2014), John and Kithae (2020) carried out a study in Nairobi County, Kenya. They found the same results, but the study considered market innovation also, as an aspect that can improve performance and entrepreneurship. The two studies used a descriptive research design, a weak design that only explains the behaviour or characteristics of the study variables. However, in this study, an explanatory research design was utilized which is more committed to bringing up causal relationships between the study variables.

H02: Process innovation has no significant effect on the performance of Small and Medium Enterprises in Bujumbura, Burundi.

Salim and Sulaiman (2011) conducted a study of Malaysian information and communication technology companies and advised firms to adopt innovative strategies such as organizational innovation to outperform their competitors, observing that firms that perform well are consistent with organizational innovation. The study was conducted in Malaysia, whereas this study was carried out in Burundi. The study by Abdullah and Yusoff (2016), supported by the observations made by Salim and Sulaiman, had the same finding that the more innovative activities organizations undertake, the more they can enhance their performance. The study also found that firms that prioritized organizational innovation were in a position to perform higher than firms that were not focused on organizational innovation.

H03: Organizational innovation has no significant effect on the performance of Small and Medium Enterprises in Bujumbura, Burundi.

The study of John and Kithae (2020) discovered that when consumers' needs change, SMEs should adjust their plans to include market innovation activities to be more responsive. Regardless, the study utilized a descriptive research design which is a poor design, it only explains the behaviour or features of the study variables. The present study employed an explanatory research design to demonstrate a causal link between them. The effect of innovation was not examined in the context of performance, and therefore, the dependent variables differed.

In the state of Guanajuato in Mexico, Valdez-Bocanegra, Maldonado-Guzman, and Valdez-Gonzalez (2020) argued that competition of firms depends to the adoption of marketing, process, product, and management innovation. These are critical when comparing the financial performance or the purchasing costs with the sector's average or in terms of technology. They found that for the manufacturing industry of Guanajuato, there is an effect of management, process, marketing, and product innovation on competitiveness.

H04: Market innovation has no significant effect on the performance of Small and Medium Enterprises in Bujumbura, Burundi.

3 Research Methodology

This study used positivism as a research philosophy. An explanatory research design was employed on a sample size of 164 SMEs selected from the target population of 279 SMEs in Bujumbura, Burundi. An explanatory research design was used since this design aims at bringing out causal effect relationships amidst variables as noted by Saunders, Lewis, and Thornhill (2009). The unit of analysis was the SMEs, while the unit of observation was the SME owners or managers. There are different categories of SMEs in Bujumbura and these include services, commerce, manufacturing, and others.

The researcher utilized a stratified random sampling technique to select the required sample size. For sample determination, this study used the Yamane (1967) formula. Primary data were collected using a semi-structured questionnaire to assess the effect of entrepreneurial innovation on the performance of SMEs in Bujumbura.

Data were analysed using descriptive statistics and inferential statistics specifically, a multiple linear regression model, was used to test the hypotheses.

The model is as below.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

Where:

Y = dependent variable (performance of SMEs)

X1 = product innovation

X2= process innovation

X3 = organizational innovation

X4 = market innovation

β_0 = Constant

e=error term

β = coefficient of independent variables

4 Findings and Discussion

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change
1	.729 ^a	.532	.517	.29156	.532

a. Predictors: (Constant), Product Innovation, Process Innovation, Organizational Innovation, Market Innovation

b. Dependent Variable: Performance

Source: Survey data, 2021

The linear correlation between the predicted and observed variables in Table 1 is 0.729. It indicates a significant relationship between performance and product innovation, process innovation, organizational innovation, and market innovation. Second, the R² of 53.2% indicated that product innovation, process innovation, organizational innovation, and market innovation can explain 53.2% of the variance in the performance of SMEs. Finally, the autocorrelation in the residuals was assessed by Durbin Watson which is 2.232 which was within the range indicated by Levine, Stephan, and Berenson (2004), who found that the optimum range to exhibit uncorrelated residues is between 1 and 3.

Table 2 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.277	4	3.069	36.104	.000 ^b
	Residual	10.796	127	.085		
	Total	23.073	131			

a. Dependent Variable: Performance

b. Predictors: (Constant), Product Innovation, Process Innovation, Organizational Innovation, Market Innovation.

Source: Survey data, 2021

Table 2 results show a p-value = 0.000 that is less than 0.05 and $F(4,127) = 36.104$, which means a significant effect of entrepreneurial innovation (product innovation, process innovation, organizational innovation, market innovation) on the performance of SMEs.

Table 3 Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.752	.236		7.418	.000
	Product Innovation	.025	.049	.039	.505	.614
	Process Innovation	.265	.108	.251	2.454	.015
	Organizational Innovation	.439	.050	.679	8.865	.000
	Market Innovation	.341	.082	.341	4.180	.000

Source: Survey data,2021

Those results in Table 3 can be stated in the following model:

$$\text{Performance of SMEs} = 1.752 + 0.265 \text{ Process Innovation} + 0.439 \text{ Organizational Innovation} + 0.341 \text{ Market Innovation} + e \dots \text{Model 1}$$

Table 3 shows that the relationship between product innovation and the performance of SMEs is statistically insignificant as $\beta = 0.25$ and $p = 0.614$ which is greater than 0.05 at the confidence level of 95%. H01 was not rejected, but rather accepted, implying that product innovation had little effect on the performance of Bujumbura’s SMEs. The study of Kiveu, Namusonge, and Muathe (2019) support the conclusions of this study, revealing a positive but negligible link between product innovation and business competitiveness/performance. Furthermore, Acquah and Mensah (2015) observed that product innovation helps to company competitiveness, but only slightly.

Table 3 indicates that process innovation has $\beta = 0.265$ and $p = 0.015$ which is less than 0.05. It implies that process innovation has a positive significance on the performance of SMEs in Bujumbura, Burundi, at the confidence level of 95%. H02 was rejected; thus, the alternative hypothesis was accepted. The results above aligned with those of John and Kithae (2020) and Martin and Mamusonge (2014), who showed process innovation and performance are related positively. The studies pointed out that process innovation helps enterprises to carry out activities more effectively and efficiently.

According to Faiz, Ramayah, Mustapha, and Pawanchik (2010), most SMEs must adopt process innovation to be competitive. RBV theory and dynamic capabilities theory arguments support these findings because innovation capability enables businesses to use existing resources to develop new processes and systems in a changing environment to gain a competitive advantage (Sok, O’Cass, & Sok, 2013).

The table above reveals that, at a 95% confidence level, organizational innovation and the performance of SMEs in Bujumbura, Burundi are significantly related, with $p = 0.000$ less than 0.05. H03 was shown to be false. Hence, the alternative hypothesis was adopted. Organizational innovation has the greatest effect of all the innovations. According to the studies by Kiveu, Namusonge, and Muathe (2019), Abdullah and Yusoff (2016), and Salim and Sulaiman (2011), organizational innovation and performance are positively and significantly related, and enterprises that focus on organizational innovation outperform enterprises that do not focus on organizational innovation. Furthermore, Sylvie (2012) observed the same results that the performance of small businesses is greatly affected by organizational innovation.

The table reveals market innovation and the performance of SMEs in Bujumbura, Burundi are significantly related, at a confidence level of 95%, as $\beta = 0.341$ and $p = 0.000$ which is less than 0.05. H04 was rejected. Hence, the alternative hypothesis was accepted. Several studies have revealed that market innovation and performance are positively related (Valdez-Bocanegra, Maldonado-Guzman, & Valdez-Gonzalez, 2020; Kiveu, Namusonge, & Muathe 2019; and Al-Ansari, Pervan, & Xu, 2013). According to Martin and Namusonge (2014), when consumers’ tastes and preferences change, SMEs should alter their plans to include market innovation initiatives to be more responsive to them. According to Dixon and Day (2014), SMEs should focus on reorganizing resources to meet market shifts,

address market challenges, and develop new markets through innovation consistent with the reasoning of dynamic capabilities theory

5 Conclusions and Policy Recommendation

5.1 Conclusions

According to the results, the study found that product innovation has a positive but insignificant effect on the performance of SMEs in Bujumbura, Burundi. The increase in product innovation through product differentiation and quality goods may result in a minor boost in performance. Therefore, the study concluded that the effect of product innovation on the performance was not significant.

The study found an effect of process innovation on the performance of SMEs in Bujumbura, Burundi. According to the findings, process design through standardization, regular auditing, and establishing and following business rules greatly improves their performance, and therefore, the study concluded that SMEs can consider process innovation to enhance their performance as process innovation and the performance of SMEs in Bujumbura, Burundi are positively related.

The research found that there is an effect of organizational innovation on the performance of SMEs in Bujumbura, Burundi based on the study objective. Quality management, the introduction of new management, and building relations with other firms greatly affect the performance. Thus, the study concluded that SMEs can rely on organizational innovation to promote their performance as organizational innovation and performance are positively related.

Finally, the study revealed that market innovation affects the performance of small and medium companies in Bujumbura, Burundi. SMEs that expanded their market by attracting new customers through discounts and online marketing improved their performance. Accordingly, the study concludes that market innovation can improve performance as its effect on performance is positive and significant.

5.2 Policy Implications

According to the study conclusions, the study recommendations are the following. First, SMEs owners and managers should introduce process innovation by adopting process design through standardization, regular auditing, and establishing and following business rules to enhance their performance. The introduction of process innovation in firms reduces production costs and time while increasing productivity and profit.

SMEs owners and managers should implement organizational innovation by establishing relationships with other businesses, using a management reporting system, managing data, and using a policy support system as it is one of the key strategies under entrepreneurial innovation that can help them achieve performance. Implementing organizational innovation will help SMEs enhance employee creativity, customer service, teamwork efficiency, profits, and market share.

According to the conclusions, small and medium-sized business owners and managers should utilize discounts to expand their market and online marketing to reach new customers while keeping strong ties with current ones. These are the most effective marketing innovation strategies for SMEs to attain performance. The responsible offices in the ministry of communications, information, technologies, and media and investors in Burundi should invest in developing telecommunications infrastructure to facilitate online marketing for SMEs.

Finally, responsible offices in the ministry of industry, trade, and tourism in Burundi should establish more programs for SMEs by introducing institutions in charge of innovation of SMEs to provide them with the relevant skills and resources. Responsible offices in Burundi's ministry of industry, trade, and tourism should introduce more business incubators, connect SMEs with universities and experts, and establish more research institutes. Thus, SMEs would perform better and contribute considerably to Burundi's economic growth

5.3 Limitations and Future Research

This study was limited to Bujumbura's SMEs. The researcher proposes that other researchers perform similar research on all of Burundi's small and medium businesses. This study considered net profit and market share as measures of performance. Future studies should examine other performance indicators including the number of employees, employee satisfaction, and customer satisfaction.

In answering questions related to business profit from the questionnaire, respondents became suspicious and were uncomfortable revealing such data. To address this challenge, the researcher assured respondents maximum confidentiality while handling the information provided.

The innovation effect on businesses has a timeframe and limit. To address this shortcoming, the researcher only considered the innovations created within the last three years of operations or less for new SMEs. Most respondents could not read or understand a questionnaire written in English, as Burundi uses French as the official language. The researcher overcame that challenge by translating the questionnaire to French.

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