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THE ROLE OF INNOVATION STRATEGY IN IMPROVING ORGANIZATIONAL PERFORMANCE AND PRODUCTIVITY: FOCUS ON HEINEKEN BEVERAGE INDUSTRY, ETHIOPIA

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Abstract

The main purpose of this study was to examine the role of innovation strategy and firm performance on organizational productivity taking Heineken Beverage Industry. To this end, the study employed cross-sectional survey research design. Pertinent data was gathered using both quantitative and qualitative approaches through self-administered questionnaires and key informant interviews. Questionnaires were distributed to a sample of randomly selected staff members from each department of the organization. Key informant interviews were also conducted. The quantitative data was analyzed through descriptive statistics and presented in tabular form, whereas the qualitative data was analyzed descriptively. The results illustrates that

innovation strategy systems in the organization are not effective in all the four components (process, marketing, product and firm performance). It is also found that the present innovation strategy is not enabling the organization to improve its productivity and realize the required organization performance. Thus, the study concluded that the organization doesn't fully address in practice the required efforts to maintain effective innovation strategies. Based on the findings, it's recommends that all stakeholders should take part in establishing, strengthening and maintaining effective innovation strategy systems; so that organization objectives can be meet.

Keywords: Innovation, marketing, product, process, firm

Introduction

The early concept of innovation in economic development and entrepreneurship was popularized by Joseph Schumpeter, a German economist. Innovation, in his view, comprises the elements of creativity, research and development, new processes, new products or services and advance in technologies (Camison & López, 2010). To (Rosli & Sidek, 2013), innovation is the creation of new wealth or the alteration and enhancement of existing resources to create new wealth. It is also seen as a process of idea creation, a development of an invention and ultimately the introduction of a new product, process or service to the market (Darroch, 2005). Presently, this concept is applied in every facet of social lives and activities which makes it more multidimensional and intricate. Beaver believes that innovation is an essential element for economic progress of a country and competitiveness of an industry (Beaver, 2010). Oscar Laban and Jared Deya also trusts innovation is a vital

part of a firm's strategy since it constitutes one of the principal means to seek new business opportunities (Laban & Deya, 2019).

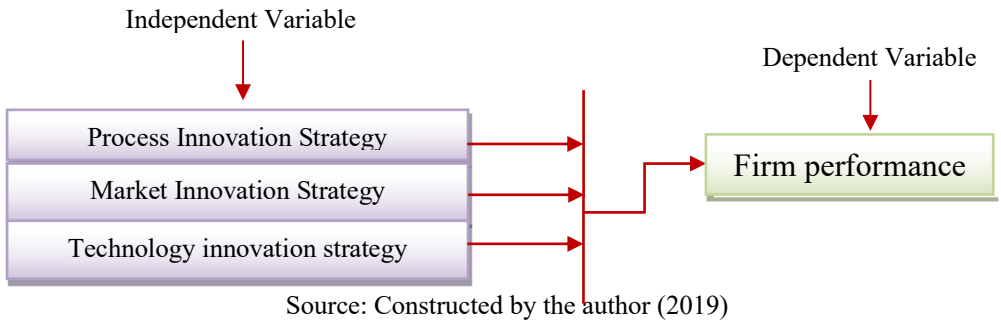
Innovation plays an important role not only for large firms, but also for SMEs (Camison & López, 2010; Darroch, 2005). Michael Porter argues that innovation is one of the most important competitive weapons and generally seen as a firm's core value capability (Porter, 1990). The global competition, which became particularly tough after 1980's, forced the company's focus on their business strategies, especially on innovations. Recently, due to the tough global competition, both individuals and companies begin to evaluate and apply innovative strategies and entrepreneurial abilities with the purpose of gaining competitive advantage as well to advance organizational efficiency, profitability and productivity.

The capability to innovate is recognized today as one of the main aspects leading to a competitive advantage among firms. Mcadam and Keogh investigated the relationship between firms' performance and its familiarity with innovation and research. They found out that the firms' inclination to innovations was of vital importance in the competitive environments in order to obtain higher competitive advantage (Mcadam & Keogh, 2004). Similarly, Geroski and Machin examined the effects of the major innovations and patents to various corporate performance measures such as accounting profitability, stock market rates of return and corporate growth. They observed direct effects of innovations on firm performance are relatively small, and the benefits from innovations are more likely direct (Geroski & Machin, 1992). However, innovative firms seem to be less susceptible to cyclical sectarian and environmental pressures than non-innovative firms.

Thus, innovation can be seen as a requisite objective for all firms that want to improve firm success and performance. It's also important from a

scholarly perspective at least for two reasons. First, most studies of the relationship between innovation strategies and firm performance has focused on simple innovation strategies involving product and process innovations. The effects of complex innovation strategies have rarely been analyzed. Second, even those studies that focused merely on simple innovation strategies, not all types of simple innovation are adequately investigated (for instance marketing innovation has been barely considered). Therefore, understanding of the relationship between innovation strategies and firm performance is important from the firm and scholarly perspective.

Conceptual Framework



Source: Constructed by the author (2019)

Firms have an option to choose an innovation strategy involving product, process, and market as well as technology. In this context, firm performance is the outcomes achieved in meeting internal and external goals of a firm through appropriately and effectively utilizing process, market and technological innovation strategies. Process innovation is the process of re-engineering and improving internal operation of business processes while market innovation deals with the market mix and market selection in order to meet a customer's buying preference. On the other hand, product innovation

involves the creation of a new product from new materials (totally new product) or the alteration of existing products to meet customer satisfaction (improved version of existing products). Thus, this paper argues that improving the performance and productivity of a firm significantly depends on the effective usage of innovative strategies involving process, market and technology.

Review of Related Theoretical and Empirical Literatures

Concept of Innovation Strategy

The literature in the field proves that there are substantial differences in terms of innovation strategies between firms even within individual industries as well as overtime. Some firms are obstinate innovators; some firms innovate irregularly, while others are non-innovators. We can easily find reasons to why some firms never innovate, such as a strong position in the market, the control of a unique resource, lack of skills or resources, bad management, and pure inertia (Canh et al., 2019; Chen, 2017; Atalay, Sarvan, & Anafarta, 2013; Kang & Na, 2020). However, our focus here is not the non-innovators, but on the innovators and the factors that determine their innovation strategies.

To the author's knowledge, few studies analyze explicitly the determinants of different innovation strategies including process, market and technological innovations and various combinations of these three types of innovation. It seems quite rare to consider concurrently these different innovation strategies. Nevertheless, the author thinks it is of great interest to differentiate between these different possible innovation strategies since the competitiveness of firms increasingly seems to depend on it.

Generally, most innovation studies focus on the role of Research & Development as the determinant of innovation (Chen, 2017). However, many innovation activities are not Research & Development based, since innovation

is “the search for, and the discovery, experimentation, development, imitation, and adoption of new products, new production processes and new organizational set-ups” (Dosi, 1988, p. 222), which is based primarily on new combinations of resources, people, ideas, knowledge and/or technologies. This suggests that the innovation strategies and performance of firms are influenced by numerous factors and activities both within and outside of them.

To understand the innovation behavior of firms it is essential to stress on the different information and knowledge sources for innovation and the complementarities as well as substitutability between them (Roper, Du, & Love, 2008; Muigai & Gitau, 2018). It is also so important to acknowledge the influence of firms’ prior information and knowledge resources, external networks and information and knowledge utilization capabilities on the different information and knowledge sourcing activities. This opens up for path-dependency and the possibility that different firms will follow different innovation paths even if they belong to the same industry.

Due to increasing competition, innovations increasingly are dependent upon a diverse set of specialized innovation inputs and capabilities (Yebolganova, 2016) though internal capability plays a crucial and irreplaceable role in determining the ability to innovate (Kang & Na, 2020; Mai et al., 2019). This implies that we shall expect that firms in general no longer can perform all parts of the innovation process in-house relying only on in-house innovation capabilities and inputs (Iansiti, 1997). Even the largest and mightiest innovative firms cannot rely exclusively on internal innovation inputs for the innovation process, and thus need external innovation inputs in the form of information, ideas, knowledge and/or technologies to develop innovations (Chesbrough & Crowther, 2006).

Innovation strategies can be a simple one, where firms focus to introduce only one type of Schumpeterian innovations (i.e. product, process, market or technology) at a time, or the strategy can be a multifaceted one, where firms combine numerous types of simple strategies at a time. Whatever innovation strategy a firm chooses, the direct motivation can be a mixture of reasons, such as increased product performance, increased productivity and/or lower production costs, while the underlying motivation is probably to preserve or increase competitive advantage in the existing or new market place (Al-kalouti et al., 2020; Chen, 2017; Byukusenge & Munene, 2017; Marinidarraga & Cuartas-Martin, 2019). It is beyond the scope of this paper to discuss how different types of innovation relate to each other. The purpose here is to examine the role of different innovation strategies on the performance and productivity of firms.

Process Innovation Strategy and Firm Performance

Commonly, process innovation is concerned with reengineering and improving the internal operation of the business processes and units (Cumming, 1998). This process involves many aspects of a firm's functions, including technical design, Research and Development, manufacturing, management and commercial activities (Freeman, 2004). It is also concerned with the creation of or/and improvement in techniques and the development in processes or systems (Azadegan, Napshin, & Oke, 2013). In a production activity, it can be referred to as new or improved techniques, tools, devices, and knowledge in making a product (Gopalakrishnan & Damanpour, 1997; Langley, Pals, & Ort, 2005; Wang & Ahmed, 2006; Azadegan, Napshin, & Oke, 2013).

Crucial to the manufacturing industry, process innovation should be stressed by a firm as its primary distinctive competence for competitive

advantage (Nemetz & Fry, 1988). Jayani Rajapathirana and Yan Hui in their empirical research entitled "Relationship between innovation capability, innovation type, and firm performance" found that product and process innovation has significant and positive impact on firm performance (Rajapathirana & Hui, 2018). More specifically, such innovation is positively associated with firm growth (Morone & Testa, 2008). Several other recent empirical shreds of evidences reconfirmed the positive and significant influence of product and process innovation on firm performance (Canh et al., 2019; Al-kalouti et al., 2020; Chen, 2017; Suhag et al., 2017).

Market Innovation Strategy and Firm Performance

Market innovation deals with the market mix and market selection to meet a customer's buying preference (Hall & Jones, 1999). Continual market innovation needs to be done by a firm because state-of-the-art marketing tools, particularly through the Internet, make it possible for other competitors to reach potential customers across the globe at light speed. Rodriguez Cano and his associates affirmed market innovation plays a decisive role in fulfilling market needs and responding to market opportunities (Rodriguez, Carrillat, & Jaramillo, 2004). In this deference, any market innovation has to be oriented towards meeting customers' demands and satisfaction.

Sandvik and Sandvik discovered that market innovation has a positive effect on the sales growth of a firm (Sandvik & Sandvik, 2003). Lilly and Juma also examined the influence of strategic innovation on performance of commercial banks in Kenya. They established market innovation has positive and significant impact to the performance of commercial banks (Lilly & Juma, 2014). As to Alex Johne and Robert Davies, market innovation would boost

sales through the increasing demand for products, which in turn yields an additional profit to innovative firms (Johne & Davies, 2000).

Product Innovation Strategy and Firm Performance

Product innovation deals with the creation of a new product from new materials i.e. totally new product or the alteration of existing products to meet customer satisfaction i.e. improved version of existing products (Gopalakrishnan & Damanpour, 1997; Langley, Pals, & Ort, 2005). It also concerned with the introduction of new products or services in order to create new markets or customers, or satisfy current markets or customers (Wang & Ahmed, 2006).

It is one of the most important sources of competitive advantage to the firm. With product innovation, quality of products could be enhanced, which in turn contributes to firm performance and ultimately to a firm's competitive advantage (Forker, Vickery, & Droge, 1996; Chen, 2017). Shreds of empirical studies proved product innovation had a positive and significant relationship with organizational performance (Varis & Littunen, 2010; Chen, 2017; Gunday et al., 2011; Al-kalouti et al., 2020).

Methodology

A mixed research approach was employed since it permits the researcher to get information from both qualitative and quantitative data for better understanding and analysis of the problem. Besides the existence of shortcomings, the use of both methods ensures that biases built in either of the methods are neutralized by the strength of the other. Moreover, using both methods enhances and enriches the research with valuable information needed.

Jerome De Lisle argues the validity of results can be strengthened by using mixed research method (Lisle, 2011).

To collect relevant data for the study, both primary and secondary data sources were utilized. The primary data was used as the major source to describe the role of innovation strategies on firm performance and productivity in Heineken Beverage Industry. Data from primary sources were collected through a questionnaire that was distributed to selected employees of the HBI by using a simple random sampling technique to minimize sampling bias. In addition to the questionnaire, in-depth interviews were conducted with purposely selected key informants (section heads, marketing manager, product manager and technology and innovation managers) to triangulate the survey result. The secondary data for the study were gathered from different documents mainly on private business management firms, manuals and guidelines of the organization.

To enhance generalization and validity, taking adequate sample size was given special care and emphasis. Accordingly, the sample size was determined using (Cochran, 1963) formula.

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where $\boldsymbol{n_0}$ represents the desired sample size, $\boldsymbol{Z^2}$ is the abscissa of the normal curve that cuts off an area alpha at the tails, $\boldsymbol{e}$ represents the desired level of precision, $\boldsymbol{p}$ is the estimated proportion of an attribute that is present in the population, and q is 1-p. Thus, by using the formula, 120 respondents were selected from seven departments of the organization from 173 total populations. The collected data was coded and entered into statistical software known as SPSS (Statistical Package for Social Studies).

Finding and Discussion

Table 1: Demographic Background of the respondents

Description	Category	Frequency	Valid Percent
Gender	Male	80	66.7
	Female	40	33.3
Age	18- 25 years	45	37.5
	26- 35 years	37	30.8
	36- 45 years	38	31.7
Educational level	Below High school	30	25
	High school	24	20
	Diploma	20	16.7
	Bachelor degree	32	26.7
	Master's and above	5	42.2
Area of specialization	Accounting	36	30
	Management	29	24.2
	Economics	55	45.8
Department	Management	7	5.8
	Accounting and Finance	13	10.8
	Market and Sales	10	8.3
	Human Resource Management	9	7.5
	Procurement	53	44.2
	Internal Audit	11	9.2
	Information Technology	17	14.2
Experience within the organization	0 - 5 years	37	30.8
	6 - 10 years	51	42.5
	11 - 15 years	32	26..7

Source: Own survey result (2019)

As shown in table 1, 80 (66.7%) respondents were male while the remaining 40(33.3%) of the respondents were female. Though the ratio of the

respondents is not proportional, both category of gender were participated in the survey. In terms of age, the large majority of respondents of about 45(37.5%) were between the age group 18-25 years, whereas 37(30.8%) of the respondents were between 26-35 age group, while38 (31.7%) were from the age group ranging from 36 to 45. It can therefore be concluded that the majority of the respondents participated in this survey are in the most productive age and much more close to innovation.

The level of education of employees is an important contributor to firms' level of performance and competence. Accordingly, of the survey participants, 24 (20%) are holders of high school certificate, 20 (16.7%) holds diploma, only 5 (4.2%) possess a master's degree, while 30 (25%) of the respondents have an educational qualification below high school. This clear articulate that the majority of organizational employees are inadequately qualified academically. Regarding the area of specialization, 55(45.8%) had an economic specialization, 36 (30%) and 29(24.2%) had accounting and management specialization respectively. Thus, the survey participants' are more likely to understand the issue under study and provide appropriate responses.

Experience is one of the professional competences required to understand innovation and its impact on firms' performance and productivity. Hence, highly experienced employees are more likely to understand and contextualize the innovation strategy they execute. Details from the survey regarding the experience of the staff illustrates that, about less than half of the study participants' or 51(42.5 %) were with an experience ranging from 6 to 10 years, 37(30.8 %) having an experience up-to 5 years, 32(26.7 %) with an experience ranging between 11 and 15 years. Thus, one can easily understand

that the majority of the study participants' have more than the required experience to effectively realize organizational innovative strategies.

A five point Likert scale (Strongly Disagree (SD), Disagree (D), Neutral (N), Agree (A), and Strongly Agree (SA)) were used to evaluate the attitudes of the survey participants regarding the process, market and product innovative strategies adopted by the organization. The survey result and the corresponding analysis are presented below:

Table 2: Process Innovative strategies

Assessment Factor	**SD**	**D**	**N**	**A**	**SA**
Supplying goods or service is essential for the competitive advantage of firm	13%	70%	0%	11%	6%
Employees work consistently with the specific technological goals or objectives	15%	74%	0%	7%	4.%
Operational plans or timelines and procedures are used to observe development	4.2%	87.5%	0%	5.8%	2.5%
Managers allocate all resources between departments to be used by cross-functional workgroups	3%	79%	0%	14%	4%

Source: Own survey result (2019)

Table 2 presented above shows that 83% of the respondents either strongly disagreed or disagreed that supplying goods and services are essential for the competitive advantage of a firm. This clear stipulates the presence of knowledge gap on the part of the participants on the issue. This is mainly because without the provision of appropriate and marketable goods and

services, a firm cannot able to gain a competitive advantage which can be translated to improving the firm level of productivity as well as profitability.

Improve the firm's level of performance and productivity demands organizational employees who are expected to work consistently having specific goals or objectives. Yet, the finding of the study shows that there is a significant gap as about 89% of the respondents stated that employees were not working consistently towards identified and set goals. The application of new innovative strategies calls employees who search for new information, ideas and technologies though only 12 of the participated employees are doing so. This could be attributed to the working environment. Operational plans and set timeliness are also less likely to be used to observe various developments within the organization. The survey also found out that the management of the organizations is not allocating the relevant resources among departments required for cross-functional activities.

Table 3: Marketing Innovative Strategies

Assessment Factor	SD	D	N	A	SA
Marketing is as important as production, financing, distribution and other profit determining factors in the firm	4%	7%	0%	56%	33%
The firm has engaged customers, prospects and the competition in the market place for success	10%	9%	2%	63%	16%
The firm has come up with new products in the last 3 years	26%	60%	0%	9%	5 %
The firm considers some general marketing principles and develop a	9.2%	72.5%	0%	12.5%	5.8%

market strategy					
The organizational structure of our firm promotes searching for and incorporating different viewpoints	18.3%	24.2%	1.7%	35.8%	20.0 %

Source: Own survey result (2019)

As table 3 illustrates, about 89% of the respondents argued that marketing is as important as production, financing, and distribution in determining the performance and productivity of a firm. The participants also believe that the firm has engaged customers for its success and competitiveness. An overwhelming majority of 86% participants strongly disagreed or disagreed that the firm has come up with new products in the last 3 years. This is strikingly worrisome as it's highly difficult for the firm to improve its performance and productivity without introducing new products to the market. This may call the organization to revisit the existing marketing strategy to improve the firm's level of competitiveness in the market. Slight majority of the respondents (55.8%) believe that the existing organizational structure promotes the incorporation of different perspectives.

Table 4: Product Innovation Strategy

Assessment Factor	**SD**	**D**	**N**	**A**	**SA**
Our firm is better than our competitors at developing new products to meet customers' needs	7.5%	82.5%	0%	5.8%	4.2%
Our firm is perceived by our customers more innovative than our competitors	5.8%	75.0%	0%	11.7%	7.5%
Our firm is more effective than our competitors at capturing ideas and convert them into new products	51.7%	41.7%	0%	5.0%	1.6%

Our firm is better in terms of the number of innovations (new products) than our competitors over the last 2 years	21.7%	67.5%	0%	5.0%	5.8%
The duration it takes between the conception of an innovation and its introduction into the market place by our firm is better than the industry average.	3%	14%	0%	69%	14%

Source: Own survey result (2019)

Table 4 articulates that 90% of the respondents either strongly disagreed or disagreed that their firm is better than the competitors at developing new products to meet customers' needs. Without new product development, there is no any reason for the customers to invest their money. This calls for the development of new products and improving the already existing ones. Additionally, 80.8% of the survey participants expressed that their customers didn't see their firm as more innovate than their respective competitors. Further, the participants also recognized that their competitors are better in terms of developing new products and capturing ideas and thereby developing them into new products. In contrast, 83% of the respondents either agreed or disagreed that the duration it takes between the conception of an innovation and its introduction into the market place by the firm is better than the industry average.

Analysis of Interview

As mentioned in methodology section, key informant interview was conducted with section heads, marketing manager, product manager and technology and innovation managers to triangulate the research result. Accordingly the key informant interviewees were asked how process innovation strategy helps firm's performance and productivity. They expressed that effective process innovation strategy provides a reasonable assurance to the achievement of company's objectives and helps the company in achieving its processing and manufacturing targets. In addition, it also contributes to continuously assessing and identifying risks and reduces surprises that affect the organization's product processing. Hence, an effective process innovative strategy is part and parcel of good organizational performance.

Process innovation provides executives and personnel at different levels of the organization with continuous, relevant and reliable information about products, and designing practical frameworks and systems to establish the process management decisions on solid ground. Moreover, as per the key informants, effective process innovation maintains balance between risk and return. This enables the risk management process to be both defensive and offensive. Thus, product processing needs to be among the top corporate strategic objectives and it must be managers' permanent concern to balance between the degree processing organization' product and opportunities associated with risks.

A good processing technique encompasses all company's rules and frameworks for the identification, analysis, assessment, control and response of all potential exposures as well as the benchmarking of the profitability and efficiency of any measures taken. This indicates that process innovation

strategy management aimed at providing reasonable assurance as to the achievement of company's objectives and helps the company in achieving its processing and manufacturing targets.

The key informants were also asked whether their product innovation strategy is contributing towards firm's performance and productivity. They argued that they are developing policies, procedures and manuals pertaining to their product which is reducing complexities in implementation. As a result, the performance and productivity of the firms is improved, they contended. Further, the training program regarding products of the firm is bridging gaps of skill and capacity on the part of organizational members which in turn resulting in better performance. Likewise, the key informants also claimed continuous product supervision is consistently undertaken to enhance firm's level of performance and productivity.

The key informants believe that customers' value analysis helps to identify and target individuals with greatest potential for future sales. At the same time, they also argued that customers' value analysis helps the firm to identify superior strategy capable of unlocking complex market. Further, the informants articulate quality management is considered as a very important for the long-term success of an organization. Quality management also ensures that an organization product and services are consistent.

Conclusion and Recommendation

Innovation plays an important role not only for large firms, but also for SMEs. It is also one of the most important competitive weapons and generally seen as a firm's core value capability. Thus, it is considered as an effective way to improve firm's productivity due to the resource constraint issue facing firms'. Based on this ground, it was necessary to examine the role of innovative strategies in improving the firm's performance and productivity by taking Heineken Beverage Industry. Accordingly, the research findings illustrates that the process innovative strategies of the organization are very weak and not significantly contributing to the firm's level of performance. Similarly, market and product innovative strategies of the organization were not effective enough to enhance organizational performance and productivity. On the basis of research findings, the research recommended the following measures to be undertaken:

- As the study discovered the existing different process innovation strategy systems are outdated and no longer applicable to the current situation, so there is a need for reforming the existing process innovation strategy systems to enhance and improve the firm performance and productivity. Hence, amending the laws and regulations should be given a high priority.
- It is recommended to introduce information technology equipment's and automation systems in processing products that will further enhance the efficiency and effectiveness of process innovation and task structures and reporting systems, which can in turn reduces bureaucracy and paperwork and facilitate attainment of organization performance.

- The management of the organization have to design effective and timely market innovation strategy and communicative it to all staff members to enhance the organizational performance and productivity.
- Establish frameworks of how the office monitors the effectiveness of internal controls, response mechanisms, and risk management processes through proper identification and prioritization of possible risks and strategies in manufacturing products to control those risks and react to potential changes.

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