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SOCIAL MEDIA EFFICACY FOR SUSTAINABILITY IN SMEs:
THE ROLE OF INNOVATION PRACTICES

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Abstract

The purpose of this study is to analyse how social media efficacy initiates the changes in SMEs (small and medium-sized enterprises) for innovation practices to improve their business performance. A total sample of 278 SMEs was collected using quantitative research. Partial Least Square-Structural Equation Modelling (PLS-SEM) was used for hypotheses testing. A two stage analytical approach was adopted to assess the measurement model and structural model by using pls algorithm technique, bootstrapping technique as well as blindfolding technique. Social media efficacy is found to have significant relationship with product, process and marketing innovation practices. In addition, product innovation is found to have positive impact on business performance whereas process and marketing innovation are not significantly influence on business performance of SMEs. The findings of this study shall foster a better understanding how social media efficacy and the innovation practices affect the business performance of small and medium enterprises. Base on the findings, several implications are highlighted.

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Keywords: SMEs, innovation practices, business performance, social media efficacy, business model.



1. Introduction

The adoption of technologies and innovation practices by the SMEs was approached differently as compare to large companies (Van de Vrande, De Jong, Vanhaverbeke, & De Rochemont, 2009), due to the lower operations level and focus in niche markets (Knight, 2000). Further, the concept of innovation in the business field emphasis on the analysis of processes and development of business competencies. These can create, transform and enhance knowledge to increase the firm's performance. There are evidences that smaller businesses can gain value from the use of social media to attract the interest of their business (Kaplan & Haenlein, 2010; Geho, Smith, & Lewis 2010). Firms can use social media as a strategic tool to monitor conversations with their customers, receive feedback, showcase their product and services, increase brand awareness, promotions and sales among others. Thus, SMEs with the ability to reach desired outcomes when evaluating or verifying the online information are able to achieve competitive advantage.

Self-efficacy theory posits "a central processor of efficacy information; that is, people process, weigh, and integrate diverse sources of information concerning their capability, and they regulate their choice behaviour and effort expenditure accordingly" (Bandura, 1977, p. 212). In other words, self-efficacy relates to ones' belief of their competency to reach a goal. It is the perception that an individual, such as small firms' owner has the ability to create an effect or achieve results through the completion of a given task. As such, SMEs with high social efficacy is expected to master a situation and generate a positive result in business performance.

1.1. SMEs Business Performance

Business performance is assessed by measuring whether a firm is successful in achieving its goals and therefore can be defined in a number of ways (Wood, 2006). According to Venkatraman and Ramanujam (1986), business performance is a subset of the overall concept of organisational effectiveness and it reflects the perspective of strategic management. Smith and Reece (1999) defined business performance as the operation capability of a firm in fulfilling the demands from the major shareholders. Despite of the fact that the performance concept is vital and widely studied, it is often difficult define the term in research settings. The present authors seem to agree with Hofer (1983) which mentioned that different measures should be applied for different areas of study because of the distinctions in their research questions. In this study, business performance is defined as the ability of the SMEs to achieve its economic and operational goals.

1.2. Social Media Efficacy

Social media efficacy can be defined as an individual's perception of his or her ability to interact using social media. It relies on the individual's skill in searching for information online and developing his/her own social media content (Hocevar, Flanagin, & Metzger, 2014). Thus, social media grants the owners and managers of SMEs the right to have two-way communication with their customers (Fournier & Avery, 2011). The types of social media includes; social networks (Facebook, WhatsApp, WeChat, and Line), micro-blogs (Twitter, Plurk, and Friend Feed), reviews and ratings (Yelp, Amazon, and Trip Advisor), video (YouTube and Vimeo), and more (Kaplan & Haenlein, 2010; Safko, 2012). There are four

types of information sources used by a person when making social media efficacy – enactive mastery experience, vicarious experience, social persuasion as well as physiological and emotional state (Bandura, 1986; Bandura, 1997). Enactive mastery experience refers to the person's successful experience in searching information online or developing social media content. Vicarious experience is derived from consuming social media content such as viewing blog or video over the Internet. Social persuasion relates to feedback or comment on an individual's social media content. Positive feedback tends to promote social media efficacy (Cheshire & Antin, 2008). The physiological and emotional state of an individual refers to the emotional reactions in the virtual environment. It may not have an impact as great as the previous three sources of information because physical impairments are not likely to occur regularly in the context of social media (Hocevar, Flanagin, & Metzger, 2014).

1.3. Innovation Practices

Creativity is often viewed as the foundation of innovation where new ideas are brainstormed and generated. Innovation, on the other hand, is deemed as turning these ideas into new products, services, processes and practices (Sarooghi, Libaers, & Burkemper, 2015). In consumers' perception, innovation is often seen as something that adds value to a firm or its products besides granting the firm a competitive advantage especially in intensely competitive or rapidly shifting markets. Accordingly, product innovation is defined as significant changes on the products in which customers can easily identify the products/services as absolutely novel or new to the particular firm (Crossan & Apaydin, 2010). Process innovation relates to business process improvement which aims at enhancing efficiency, speed, productivity and process flow (Hjalager, 2010). The process innovation has turned into platforms for improved services which are highly valued by the consumers due to its convenience and speed. Marketing innovation aims to raise customer demand for a firm's products and services through penetrating new markets, satisfying customer needs and repositioning the products and services (Hsu, 2016), making unique marketing communication tools, brand new image, and novel methods of market research possible. Hence, marketing innovation induce the capability of firms to capture market opportunities and strive for competitive advantages (Ramirez, Parra-Requena, Ruiz-Ortega, & Garcia-Villaverde, 2018).

1.4. Hypotheses Development

Social media are said to have boosted firms' innovation on their products and services (Agnihotri, Kothandaraman, Kashyap, & Singh, 2012). These data provide the basis for products and services improvement as well as for market research and analysis. It also enables firms to collaborate with opinion leaders around the globe (Groza, Peterson, Sullivan, & Krishnan, 2012). As such, process innovation enables firms to compete in the absence of huge research and development budget. SMEs can enhance their efficiency and competitiveness via incremental process improvements versus the more expensive R&D centred innovation. Japanese firms have been engaging in innovative process techniques such as enterprise resource planning, electronic data interchange, statistical process control, and e-logistics (Govindaraju, Vijayaraghavan, & Pandiyan, 2014). The power of social media enables SMEs with limited budgets to sell their stories and win the hearts of a niche group of customers scattered across the globe (Barnes, Clear, Dyerson, Harindranath, Harris, & Rae, 2012).

Based on the above arguments, SMEs can obtain feedback and opinions to set the direction for the firm's strategy on product innovation. At the same time, social media is poised to provide an online platform for trading, communication and payment. Firms can use social media to provide a platform for intelligence gathering, learning and adaptation. Most importantly, it does not require huge investment and sophisticated knowhow and it could be easily implemented. As a consequence, the following hypothesis is conceptualised:

H1: There is a significant and positive relationship between social media efficacy and product innovation.

H2: There is a significant and positive relationship between social media efficacy and process innovation.

H3: There is a significant and positive relationship between social media efficacy and marketing innovation.

Serving as a significant driving force for economic evolution, innovation is the key element of building core competence in organisations (Wagner & Hansen, 2005). The firm lifespan very much relies on the capability of being continuously innovative as it is among the major ways to differentiate a firm from those of their competitors. Companies that adopt innovation practices tend to improve business performance then those who neglect it (Verhees, Meulenberg, & Pennings, 2010). Innovation practice was regarded as a unidimensional construct by many researchers (Hjalager, 2010; Jimenez-Jimenez & Sanz-Valle, 2011; Hsu, 2016). Instead of testing the relationship of innovation practices as a whole, the study of innovation practices in this research were categorised into product innovation, process innovation and marketing innovation. With the aim of examine the effect of each dimension towards SMEs business performance, the following hypotheses are conceptualised:

H4: There is a significant and positive relationship between product innovation and SMEs business Performance.

H5: There is a significant and positive relationship between process innovation and SMEs business Performance.

H6: There is a significant and positive relationship between marketing innovation and SMEs business Performance.

1.5. Proposed Research Model

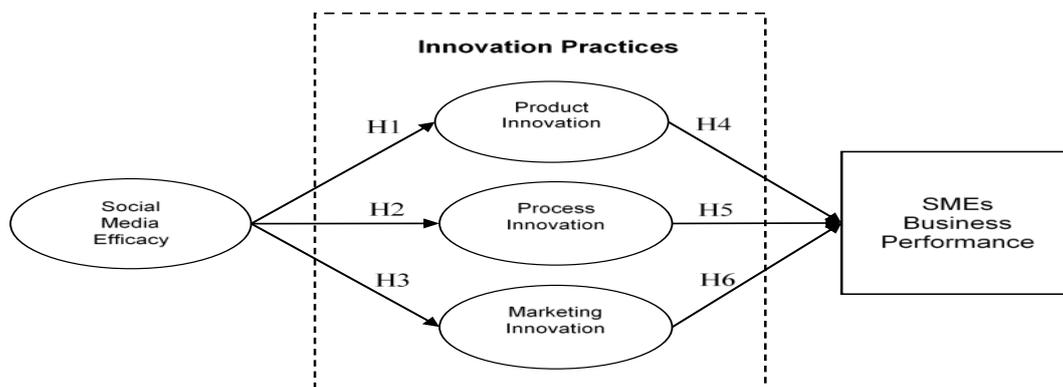


Figure 01. The proposed conceptual Framework

2. Problem Statement

The accessibility of using various social media application is particular relevance to SMEs, with the ease of using internet and technology advancement are applicable to both technically orientated people as well as the inexperienced (Lacho & Marinello, 2010). However, lacking the skills to effectively use information technology may hinder in enhancing communication and building relationships with customer by the SMEs. Despite small business enterprises realise the benefits of social media, there are still lack of basic version of self-efficacy in generates technological leaps for business opportunities (Geho et al., 2010).

In addition, analysing the perspective of SMEs on how feasible it is for them to implement an efficient and effective ways of innovation practices does help to gather a more comprehensive picture of the phenomenon for their future implications and business value chains (Theyel, 2012). As such, the SMEs require research that helps to sustain their economic significance in terms of business developments. Past studies were conducted on the manufacturing industries where advanced technology was adopted in the production processes and new product was a measure of innovation (Lederman, 2010). Nevertheless, it is equally important to examine the SMEs' service sectors from the tourism industry which has been identified as an area with significant growth potential for the continent.

3. Research Questions

Based on the argument above, this study aims to provide answer to two research questions:

RQ1) How do SMEs perceive and understand the utilities of social media?

RQ2) How do SMEs modernise their business concepts in results of innovation practices?

In order to answer these questions, the study analyses the interpretation of social media efficacy by the SMEs, follow by how they forge value in product innovation, process innovation and marketing innovation on their business performance.

4. Purpose of the Study

By examining how SMEs respond to innovation practices, the researchers propose a research model that helps SMEs to provide value to their product, process and marketing opportunities. In addition, such concept allows the examination of business performance of the SMEs, in particular for those require technology skills and expertise in social media. The purpose of the study aims to examine the relationship between social media efficacy and innovation practices (product innovation, process innovation and marketing innovation) as well as to examine the relationship between innovation practices (product innovation, process innovation and marketing innovation) and business performance among SMEs.

5. Research Methods

5.1. Procedure and Sample

The study adopted a cross-sectional and causal research design examining the relationship among social media efficacy, dimensions of innovation practices and SMEs business performance among SMEs in Penang, Malaysia. The targeted population consisted of SMEs in service sector, where their earning is

less than RM 20 million sales turnover and having not more than 75 employees. A quota sampling technique was used to select sample based on types of business operation: accommodation, food and beverage, transportation, entertainment, recreational service among others. The fieldwork of the study was conducted mainly in Penang Island and Main Land from September 2017 to October 2017. A total of 500 questionnaires were distributed to SMEs managers and owners of business providers. Out of 397 returned questionnaires, 278 returned questionnaire were in completed form and used for data analysis.

5.2. Research Instrument and Measurement

All adopted items measurement were using five point likert-scale ranging from one for strongly disagree to five for strongly disagree. A paper survey method was deployed with two sections: section A for respondent's profile and section B for items that measuring the respondents' perceptions on various constructs: social media, innovation practices and SMEs business performance.

Social media was measured by seven items adopted from Fischer and Reuber (2011), Fournier and Avery (2011), Kaplan and Haenlein (2010), Mangold and Faulds (2009), Stokes and Lomax (2002), Gilmore, Carson, Donnell and Cummins (1999). The items used in this research was validated through conducting confirmatory factor analysis. Based on the analysis, social media items were scored favourably in construct validity and reliability with a composite reliability value of 0.910 and cronbach alpha value of 0.885. The sample items for social media include the following: "social media applications act as a media tool for my business to engage with customers" and "I use web-based applications to have a two-way communication with my customers".

An 11-item scales were employed to measure innovation practices and divided into three sub-dimensions: four items for product innovation, three items for process innovation and four items for marketing innovation. The 11-item scale were originally developed by Al Ansari (2014) and Seyed and Amir (2014). The sample items are "product innovation allows my business to combine existing knowledge or technology to produce new product or services" for product innovation with composite reliability of 0.901 and cronbach alpha value of 0.854, "process innovation allows my business to seek for new strategies in operating my business" for process innovation with composite reliability of 0.874 and cronbach alpha value of 0.784 and "marketing innovation allows my business to apply new marketing methods in promoting my business' product or services" for marketing innovation with composite reliability of 0.911 and cronbach alpha value of 0.870.

For SMEs business performance measurement, it was taken from Linder (2006), Aragon-Sanchez and Sanchez-Marin (2005), Wiklund and Shepherd (2003) and Klomp and van Leeuwen (2001). A total of six items with minor modification to ensure the items were able to measure adequately to SMEs context. The sample items include "the annual growth rate of the revenues and earnings", "the ability to compete with the competitors" and "the ability to gain customer satisfaction successfully". The inter-item consistency score was 0.908 for composite reliability and 0.885 for cronbach alpha.

5.3. Data Analysis

A two stage analytical approach was employed to conduct the structural equation modelling with Partial Least Square method (PLS-SEM) (Anderson & Gerbing, 1988). SmartPLS software was used to

conduct pls algorithm procedure for construct validity and reliability, bootstrapping procedure for t-statistics, path coefficient and predictive power and blindfolding procedure for predictive relevance (Ringle, Wende, & Becker, 2015).

Assessment of Measurement Model. Firstly, the convergent validity was assessed based on three criteria: outer loadings of each item within each construct, average variance extracted (AVE) of each construct and composite reliability of each construct. The outer loadings of all items were achieved at least 0.707 minimum value (Hair, Hult, Ringle & Sarstedt, 2017). Furthermore, the AVE of each construct was well-above the recommended value of 0.500 which ranged from 0.699 for marketing innovation to 0.553 for SMEs business information (Hair et al., 2017). Lastly, the composite reliability of each construct were exceeded the minimum threshold value of 0.700. Based on above analysis, the measurement model possessed an adequate convergent validity.

The discriminant validity can be tested using Fornell and Larcker (1981) criterion and cross loading criterion (Hair et al., 2017). The loadings of each indicator on the assigned latent construct is at least 0.100 larger than the loadings on all other latent constructs. For Fornell and Larcker criterion, the square root of AVE for each latent construct is higher than all other correlations value on the off-diagonal.

Assessment of Structural Model. Table 1 reveals the structural model results pertaining to t-statistics, path coefficient, predictive power and predictive relevance. In view of the t-statistics and path coefficient, social media is significantly related to all dimensions of innovation practices: marketing innovation ($t=4.515$, $\beta=0.377$), process innovation ($t=4.760$, $\beta=0.308$) and product innovation ($t=5.903$, $\beta=0.385$). Thus, hypothesis H1, H2 and H3 are supported. Apart from this, only product innovation is significantly related to SMEs business performance with t-statistics of 2.056 and path coefficient of 0.166. However, the relationships between marketing innovation and SMEs business performance as well as process innovation and SMEs business performance are not significant. Hence, hypothesis H6 is supported, whereas H4 and H5 are not support. In short, social media played an important tool to enhance the innovation practices of SMEs, but only product innovation can contribute significantly to SMEs business performance.

For coefficient of determination of the endogenous constructs, social media is able to explain 14.2 percent of variance in marketing innovation, 9.5 percent in process innovation and 14.8 percent in product innovation. On the other hand, all the three dimensions of innovation practices can explain 19.4 percent in TSMEs business performance. Based on the guideline recommended by Cohen (1988), all endogenous coefficient of determination (R^2) are considered moderate level as exceeded the minimum cut-off value of 0.13 or 13 percent. It is except for process innovation where its coefficient of determination is 9.5 percent which fall under small level category. The blindfolding procedure was used to generate predictive relevance of the endogenous construct. Table 1 indicates that the Stone-Geisser (Q^2) value for each endogenous construct is larger than zero (Hair et al., 2017; Stone, 1974; Geisser, 1974) Therefore, it can be concluded that each exogenous construct has predictive relevance for its endogenous construct.

Table 01. Structural Model Results

H	Path	Beta	Standard Error	t-Statistics	Results	Q ²	R ²
H1	SM > PDI	0.385	0.065	5.903	Supported	0.101	0.148
H2	SM > PCI	0.308	0.065	4.760	Supported	0.056	0.095
H3	SM > MI	0.377	0.084	4.515	Supported	0.098	0.142
H4	PDI > BP	0.166	0.081	2.056	Supported	0.095	0.194
H5	PCI > BP	0.144	0.097	1.485	Not Supported		
H6	MI > BP	0.123	0.079	1.557	Not Supported		

Note. Q²=Predictive Relevance, R²=Predictive Power

6. Findings

6.1. Discussion

For the first objective of the research study, the result indicated that firms with social media efficacy are able to enhance the practice of innovativeness in various aspects: product, process and marketing. Among the three dimensions of innovation practices, social media efficacy contributed the highest to product innovation, followed by process innovation and marketing innovation. Notwithstanding the evidence, social media efficacy is an important element for a firm to enhance innovation practices as supported by Agnihotri et al. (2012). Entrepreneurs who actively use social media would be able to engage with customer for real time market feedback on the existing product/services and at the same time predict market trend via observing their rivals (Groza et al., 2012). In turn, firms can continuously improve their product/service quality. Similarly, process innovation enables firms to improve business process in terms of customer delivery, optimised business process strategy, enhance the speed of production as well as better application of their resource planning, (Govindaraju et al., 2014). In terms of marketing innovation, SMEs with social media efficacy are using networking tools such as Facebook and Twitter as their main platform to create products/services awareness to market a broader range of customers. As for the second objective, the result posited that only product innovation is positively related to SMEs business performance as supported by Hjalager (2010), Jimenez-Jimenez and Sanz-Valle (2011) and Hsu (2016). Therefore, SMEs innovative products/services are able to increase the firms' growth rate of annual sales revenues, ability to gain customer satisfaction as well as compete with competitors.

6.2. Implications

This study provide evidence that SMEs are gaining value from the adoption of social media. Through considerably participating in business website, it can enhance their business operations by increasing customer engagement, provision of information and product knowledge to develop business reputation. In addition, forming community through digital networking can induce long-term loyalty from customers by gaining trust from on line response and information as competitive advantage (Culnan, McHug, & Zubillaga, 2010). By responding to customers' general queries, it can create reputation for providing the source of product and service knowledge and leading to outperform the business performance in times of economic doubt. The implication of the research highlights the need for vigilant innovative business planning (Bernoff & Li, 2008) and at the same time remain flexible to cater the needs and demands of the business connectivity to accommodate on social media use. This requires an understanding of the potential

uses of the many social media tool, as the use of different applications can be for different purposes (Derham, Cragg, & Morrish, 2011). In addition, Social media activities can assist in innovative practices and business growth, but, it requires time intensive and awareness of the target market as well as the local conditions.

From the innovative practices discussed in findings, managers of SMEs will have to prioritise the activities related to the innovation of products and/or services as compare to process and marketing innovation. This is because the transformation of their products and/or services to the preference and needs of customers is the utmost important. The existing market trend for the SMEs is to customise their product and/or services to the necessities of consumers. As such, the use of information technologies are crucial to reduce the costs of product, improvement in products and/or services quality in order to facilitate the increase level in business performance. Further, a working environment for both the management and employees' participation is necessary in order to create ideas, abilities and skills on product innovation. SMEs can implement training program to nurture technology knowledge sharing and team activities that support for a strong innovation culture in achieving excellence business performance.

7. Conclusion

Innovation plays a major role in driving for a superior performance (Baker & Sinkula, 2009), creating value, fostering economic growth and promoting social welfare (Crossan & Apaydin, 2010). Unfortunately, Malaysian SMEs' innovation is still low comparatively to other countries (Yunoh & Ali, 2015). Hence, SMEs need to strengthen their ability to respond quickly to the rapidly changing environmental in order to initiate and exploit economic opportunity. Social media provides a real time platform to obtain market feedback, observe the predict market trend, promote products/services as well as close business deals and generate sales. The results reviewed that product/service innovation plays a significant role in the purchase decision of customers due to its visibility and eye-catching effect (Hjalager, 2010). Hence, social media is the main agent of innovation practices due to its spectacular capability in organising, managing and delivering information and receiving data across the globe. The advancement of social media functions has not only brought technological changes to the SMEs but also radical changes in the way of doing business (Safko, 2012). When such concepts are integrated into SMEs operations, a form of new products, process system, creative marketing technique and novel ways in managing resources can be achieved.

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