

## HOW DO ENTREPRENEURS' PERCEPTIONS ON INNOVATION EFFECT IN INDUSTRY COMPETITIVENESS AND SUSTAINABILITY

*Como as Percepções de Empreendedores sobre Inovação impactam a Competitividade e Sustentabilidade Industrial*

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**Abstract:** Entrepreneurs' perceptions on innovations remain crucial in successfully facing competitiveness challenges in industry enterprises that produce range of products in economies in transition all over the world. Economies transit from factor driven to efficiency driven in which use of modern technology increases. This paper explores the effects of entrepreneurs' perceptions on product innovations which have impact on industry enterprises sustainability in leather products and footwear industry of Sri Lanka. This country is in transition from factor driven production process towards efficiency driven production processes based on technology. An expert reviewed and piloted questionnaire was used to gather primary data related to entrepreneurs' perceptions and competitiveness of enterprises in the industry. The research has found that the majority of entrepreneurs do not have an intention to engage in new product innovations in near future. They use designs already available which lead to competitiveness and sustainability issues in this industry. Level of innovations and use of Internet for routine business activities in enterprises in the industry remains low. No similar research study done before in this industry thus the study is an original work which adds knowledge for academic and development purposes

**Keywords:** Innovations; Competitiveness; Sustainability; Modern technology; Enterprises

**Resumo:** As percepções dos empreendedores sobre as inovações continuam sendo cruciais para enfrentar com sucesso os desafios de competitividade nas empresas do setor que produzem produtos em economias em transição em todo o mundo. As economias transitam de movidas por fatores, ou seja, mão de obra barata produtos primários, a movidas por eficiência, na qual o uso das tecnologias modernas aumenta. Este trabalho explora os efeitos das percepções dos empreendedores sobre as inovações de produtos, que já corresponderia a um terceiro estágio de desenvolvimento, que têm impacto sobre a sustentabilidade das empresas do setor relacionado a produtos de couro e indústria de calçados do Sri Lanka. Este país está em transição do processo de produção orientado por fatores (primeiro estágio) para processos de produção orientados por eficiência, baseados em tecnologia (segundo estágio). Um questionário revisado por especialistas e testado foi utilizado para coletar dados primários relacionados às percepções dos empreendedores e à competitividade das empresas do setor. A pesquisa descobriu que a maioria dos empreendedores não tem a intenção de se engajar em inovações de novos produtos no futuro próximo. Eles usam projetos já disponíveis que levam a questões de competitividade e sustentabilidade nesse setor. O nível de inovações e o uso da Internet para atividades de negócios rotineiras em empresas do setor permanecem baixos. Nenhuma pesquisa semelhante nesta indústria foi realizada anteriormente, portanto, o estudo é um trabalho original que agrega conhecimento para fins acadêmicos e de desenvolvimento.

**Palavras-chave:** Inovações; Competitividade; Sustentabilidade; Tecnologia moderna; Empreendimentos

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## INTRODUCTION

Irrespective of nature and size of the economy, small enterprises play a crucial role in any economy especially those in transition from factor driven to efficiency driven with the aid of modern technology thus requiring innovative production practices (OECD, 2010). It is because small enterprises in any country represent the largest pool which contributes immensely for gross domestic income in that country (Demirbas, 2010). Small enterprises in Sri Lanka economy play an important role by providing employment, income and put the economy forward over the past few decades (Thilakarathna and Jayasekera, 2013). Leather products and footwear industry is a major set of enterprises in Sri Lanka which the paper focuses on. It will look at entrepreneurs' perceptions on innovations and enterprise sustainability. This paper will investigate the link between entrepreneurs' perceptions and product innovations which may leads towards enterprise sustainability. Entrepreneurs' perceptions are found to be critical in determining enterprise competitiveness and sustainability (Stanwick, 2011). The research explores as to how the entrepreneurs view about innovations as firms in contemporary business world increasingly recognize innovations as a way forward for competitiveness (Smith, Courvisanos, Tuck and McEachern, 2012).

Thesaurus Dictionary defines the term "entrepreneurs" perception as the act of apprehending by means of the senses or of the mind, cognition or understanding of the concept. The concept of "innovation" has been defined as the creative application of knowledge to increase the set of techniques and products commercially available in the economy (Smith et al., 2012). Business dictionary online defines the term "competitiveness" as the ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them. An "enterprise" is defined as an economic entity created by the entrepreneur, which may develop into a small or large business in time to come (Henry, Hill and Leitch, 2005). The term "firm" can be defined as an entity working for profit and thus the terms "firms" and "enterprises" are used interchangeably to denote small and medium scale enterprises operate in the leather products and footwear industry in Sri Lanka.

Small firms in Sri Lanka remain a key driver of the economy with a significant contribution to GDP. In 2011 the contribution of small and medium firms was at the level of 52% of the total GDP of the country (Thilakarathna and Jayasekera, 2013). It has risen from 40% in 2010 (Thilakarathna and Jayasekera, 2013) and keep rising its contribution for the gross domestic product of the country. The leather products and footwear industry in Sri Lanka, which is mainly driven by labor, has a significant potential for being a key contributor to the economy of the Country with a value addition in the range of 40% -50% (Gurusinghe, 2012). In this context, it is crucial that entrepreneurs have positive perceptions on innovations in order to improve firm competitiveness as it is individual entrepreneurs who run these small firms to greater extent. In an industry which is driven by labor, individual entrepreneur's ideas, views and acts on innovations remain the keys. The ability of an enterprise for product innovations depends on its people especially those who run these industries and the level of technology being used (Smith et al., 2012). Therefore, owners of the firms of the industry shall demonstrate good perceptions and involve in product innovations with attractive designs to be competitive and sustain in the business.

## **RESEARCH PROBLEM AND RESEARCH OBJECTIVES**

The survey research shall answer the research question specified below: “Does entrepreneur’s perception signifies product innovations?”

This research envisages meeting following research objectives on completion of the research:

- 1) Unearth entrepreneur’s expectations on new product innovations
- 2) Explain the benefits of having positive views and ideas on product innovations
- 3) Identify main design modes of leather products
- 4) Identify degree of use of technology (Internet) for routine work of production activities
- 5) Propose suggestions to overcome the constraints for innovations in the industry

## **LITERATURE REVIEW AND THEORETICAL BACKGROUND**

Entrepreneur is an individual who organizes and operates a business or businesses, taking on financial risk to do so (Bhanudas, 2014). Innovative entrepreneurs are the prime movers of the economy who resolve institutional frictions i.e. adjustment costs, diversification costs, the replacement effect, and imperfect adjustment of expectations which hinder or delay innovations (Spulber, 2014). The innovative entrepreneur addresses inefficiencies through use of own knowledge and use of innovative ideas (Spulber, 2014). Enterprises has to improve capacity where they have to use internet and computers for the purpose of learning and gather knowledge to be in competitive in industry locally and internationally (Garavan, Morley, Gunnigle and McGuire, 2002). It is considered an imperative for business successes in the paradigm of strategic human resources management (Garavan et al., 2002). At the same time enterprises care about innovations for improvement of productivity and capture new markets while being in competitive in the industry is vital (Stanwick, 2011). What is really meant by innovation? It is much more about new product, processes and services development than research and development (Stanwick, 2011). In this regard it is widely acknowledged that entrepreneurs need to have positive perceptions about the innovations. If an entrepreneur intends to be competitive, he/she has to offer something different or do something differently which requires innovations (Caskey, 2015). The academia and the business world unanimous that the world recognize the fact that innovations pave the way for business competitiveness while entrepreneurs have to be in the forefront of discourses on innovations to meet people’s needs fully (Dan, 2015). Scholars give attention to numerous individual and organizational predictors which can later become a foundation for creative activities of an enterprise which leads towards innovations (Wojtczuk-Turek and Turek, 2015). Entrepreneur perceptions and views directly related to generation and introduction of innovative ideas (Wojtczuk-Turek and Turek, 2015). It is acknowledged that giving employees more freedom for creative work ensure industry sustainability and dynamism in innovations (Muthusamy and Dass, 2014). When it comes to firms’ overall performance, innovation helps in numerous ways to achieve greater efficiency and effectiveness (Toner, 2011). Scholars argue that there are a variety of skills that are required for innovation (Stanwick, 2011). Entrepreneurs may be get benefits from general education and management training which shape their thinking styles to be better entrepreneurs in the industry (Dana, 2001). Networking in entrepreneurships is found to be an effective strategy where the entrepreneurs has to use internet for linking individuals and firms (Bhattacharyya, 2010).

The research adopted survey research method to gather primary data related to entrepreneurs' perceptions about innovations and their design sources. An enterprise list of leather industry in Sri Lanka was used to contact the firms in the industry to seek assistance to fill the questionnaire of the survey. A structured questionnaire was circulated among 290 firms where 185 responses were received at a rate of 63.7%. The survey was held in first quarter of 2016 in Sri Lanka. When it comes to literature review, available literature was reviewed in descriptive manner to understand the problem and unearthed available body of knowledge that leads to understand gaps in knowledge in relation to the topic being investigated. Available literature related to industry behavior and status was reviewed and cited appropriately in this paper.

## RESULTS

The research expected to unearth entrepreneur's expectations on new product innovations in order to make innovations and thus the survey asked entrepreneurs about their plans on innovating new products in next 6 months period. Table 1 showed below depicts that majority of firms is not planning to introduce new products in near future.

**Table 1 Whether the Entrepreneurs Expect to Do New Product in Next 6 Months**

Decision	Frequency	Percent	Cumulative Percent
Yes	51	27.6	28.5
No	128	69.2	100.0
Total	179	96.8	
Missing	6	3.2	
	185	100.0	

Source: Survey results

The research has been found that only 27% is willing to engage in innovations in next 6 months and majority of 69% are unwilling to engage in innovations in near future as shown in foregoing Table 1. Entrepreneurs who were not willing to do any innovations were asked to give the reasons and accordingly, the prominent reason that they have cited was their unwillingness to take risk by engaging innovations. The results are depicted in Table 2 below

**Table 2 Reasons for No Launch of Innovations**

Reason	No.	%	Reason	No.	%
No idea	6	3.2	No sufficient finance	14	8
Not like to take risk	32	17	No facilities in the company	9	5
Fellow company failed in such a work	11	6	No necessary skills	6	3

Source: Derived table from survey data

The survey uncovered the perception of entrepreneurs on innovations where they were not planning to do innovations attributed to their unwillingness to take risk. Also they have witnessed a fellow companies have been failed in new innovations which the entrepreneurs take as a lesson for not doing innovations. Sourcing of designs indicates an industry's innovation tendency and how the entrepreneurs believe in own designs and creativity. A question was asked in this regard and the Table 3 given below shows the preferences of “sources of designs” as indicated in the survey

**Table 3 Preferred Sources of Designs**

Sources of designs	Yes	%	No	%
Designs already available in the industry	120	64.9	65	35.1
Designs developed by the firm	62	33.5	123	66.5
Designs of overseas buyers	6	3.2	179	96.8
Designs of firms' local customers	27	14.6	158	85.4

Source: Derived table from survey data

As per the table 3 above, 64.9% of entrepreneurs use designs already available in the industry. Only 33.5% uses designs developed by the firm. When it comes to export of leather products, only 3.2% uses designs of overseas buyers. In the local market, only 14.6% produce according to desires of local customers. This uncovers the true picture of perception and tendency of local entrepreneurs on innovations. Designs are the main mode of doing innovations where the local industrialists' views are not that positive. Entrepreneurs' future plans on innovations were questioned with a Likert scale of “Strongly agree (1)”, “Agree (2)”, “No idea (3)”, “Disagree (4)”, and “Strongly disagree (5)” for 5 statements which illustrate their future plans. The mean values in each of the statement in descriptive statistics show that they are not that positive in either area of future plans.

Use of Internet for routine business activities and networking especially for new product development is a reliable predictor of perception on innovations. The survey queried in this regard and Table 4 given below depicts the responses. Vast majority of 81.6% has not been using the internet for routine business activities as shown in Table 4 below.

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## CONCLUSION

This research was expected to give an answer for the research problem raised at the beginning. The problem raised at the beginning was — Does entrepreneur's perception signifies product innovations? In addition, it was envisaged to unearth entrepreneur's expectations on new product innovations, explain the benefits of having positive views and ideas on product innovations, identify main design modes of leather products, identify degree of use of technology (internet) for routine work of production activities and to propose suggestions to overcome the constraints for innovations in the enterprises of the industry. As explored in the research based on the findings some policy suggestions and operational level proposals to be made in this part of the paper.

**Table 4 Descriptive Statistics – Future Plans on Innovations**

<b>Future plans</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
I will increase production of the new product by two fold	115	1.7304	.77597
I will go to other parts of the country to introduce new product	125	1.7520	.70317
I will find a new buyer for the new product	78	1.6795	.71157
I will export the new product	39	2.3333	1.26352
I will setup a new plant for the new product	40	2.3500	1.33109
Valid N (listwise)	36		

Source: Survey data

**Table 5 Degree of Use of Internet**

<b>Frequency</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
	never	28	15.1
	rarely	110	59.5
Valid	no idea	8	4.3
	often	21	11.4
	frequently	12	6.5
	Total	179	96.8
Missing	System	6	3.2
Total		185	100.0

Source: Survey data

As found in the survey, vast majority of entrepreneurs had not much interest in doing new product innovations in near future which signifies a negative perception of entrepreneurs on innovations. Entrepreneurs appear not taking risk which is not a salient characteristic of an entrepreneur in any industry. Entrepreneurs usually categorized as “risk takers” in business education however, this salient characteristic is not visible among this particular group of entrepreneurs. In new product innovations, some get success and some get fail thus because of that reason if they do not engage in innovations then the industry would not be competitive and would face sustainability issues. Financing for new product innovations is also cited which is acceptable in small enterprises in an economy of the current scale. In relation to designs, majority of the enterprises rely on the designs already available in the industry which is apparently due to negative perceptions of the entrepreneurs. They heavily depend on the designs developed by themselves which ultimately leads to industry stagnation, lower level of competitiveness and sustainability. Leather products of Sri Lanka are exported to overseas however, vast majority of producers do not consider designs of overseas buyers during designing and productions.

Though the industry caters to local market, the producers do not consider demands of the local customers either. So, this is really a competitiveness issue which needs early attention of the responsible authorities. The degree of usage of internet for routine business activities and networking especially for new product development shows how good the firms use modern technology and explore new development of external world as relevant to their industry. For the purpose of networking with external world, internet is the main tool which this industry does not use adequately as found in the survey. Finally, the research question raised at the beginning of the research proved right as entrepreneurs' perceptions signify the product innovations. As long as the entrepreneurs have positive perceptions towards innovations they keep doing innovations and otherwise not much new things happen which leads to stagnation of the industry. Consequently, the industry hardly moves forward. It finds difficulties in competing in the local or overseas market unless it does things differently in innovative ways as per the aspirations of its customer base. This research opens avenues for future research on industry competitiveness and sustainability as it is a dynamic proposition. Constant gauging of entrepreneurs' perceptions may be useful for policy and resource allocation purposes and thus continuous research in this growing industry would be beneficial.

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