

Innovations and Continuous Improvements and Their Impact on Firms' Performance

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ABSTRACT

This paper examines the influence of innovation and continuous improvement practices on the competitiveness of firms, which in turn affect their performance. Results obtained from 108 Qatari firms confirm that continuous improvements had a significant positive influence on the firms' competitiveness. Among six of the ten Ekvall's creative climate factors examined, only four had some positive influence on the competitiveness of the firms. The authors also found that the organization's internal environment had significant positive influence on the competitiveness of the firms. Furthermore, results show that organizational competitiveness significantly influenced performance. Managerial implications of the findings are also provided.

Keywords: Competitiveness, Continuous Improvement, Innovation, Internal Environment, Organizational Performance, Qatar

INTRODUCTION

Creativity and innovation have a role to play in the change process for survival of firms (Martins & Terblanche, 2003). They are also considered to be key factors for achieving sustainable organizational competitive advantage in the new economy (Politis, 2005). As mentioned by Mostafa (2004) creativity may be the most important tool in a manager's arsenal. Without it a firm becomes predictable and causing it to be at competitive disadvantage with its rivals. Thus creativity may be the key to market success and improved operating efficiencies

(Herbig & Jacobs, 1996). In addition to being creative, firms need to also focus on continuous improvement. However, many researchers have noted that by focusing on merely continuous improvement companies will not have vigor in this new world, since many of them are likely to confront competitors' innovations that undermine their area of competence (Kambil et al., 2000). Humphreys et al. (2005) have found that innovation implementations by UK's SMEs require ongoing effort, commitment and understanding beyond that of continuous improvement. In other words, continuous improvement provides a comfortable logic to gradual evolution and intellectual "safe harbor" for risk optimization, but presents very limited

DOI: 10.4018/jsesd.2010100104

forms of relative insights (Mascitelli, 2000). As pointed out by Ghosal et al. (1999), in today's turbulent business environments, competitive advantage lies in the firm's ability to innovate its way temporarily out of relentless market pressures facing them. The government of many countries has developed many programs, such as the Malaysia's Super Corridor, the Commercial Ready program in Australia, and the Vinnova Programs in Sweden, in order to facilitate the process of technological entrepreneurship in their countries (Kropp & Zolin, 2005).

In their efforts to carry out continuous improvements as well as to create the right kind of internal environment that is receptive to innovations firms need to have a climate which can be considered as creative rather than otherwise. Similarly, they need to have the right kind of structure and organizational characteristics and culture that can facilitate such kind of climate. Finally, the ability of firms to carry out continuous improvement and to implement technological innovations as well as to create the kind of climate, structure, and culture that stimulate creativity and innovativeness could help make them more competitive vis-à-vis their rivals. Thus, the main objectives of this paper are to investigate (1) the positive influence of innovations, continuous improvement, and organization's internal environment on the competitiveness of firms that in turn (2) positively influence the performance of the firms. This study examines the influence of innovations and continuous improvement on the performance of Qatari firms. This is the first attempt at undertaking such a study in the developing country environment of Qatar, one of the members of the Gulf Cooperation Council (GCC) countries that are undergoing rapid economic development due the abundance of natural gas and petroleum resources in the country. In 2009, the country enjoyed the second highest per capital GDP in the world (CIA World Factbook, 2010). With the coming of the era of globalization Qatari firms now face more challenges as more and more foreign firms are entering the country due to the lessening of trade barriers, and therefore there certainly

is an increasing need for its domestic firms to be more competitiveness in order to face such challenges. Thus, we see a very good justification for carrying out this study.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

Radical and Incremental Innovations

Nystrom (1990) broadly defines innovation as "the creation of the future". It is the process of bringing new ideas (new products, processes, services, management techniques, etc.) into use in order for the organization to continue its existence, to be competitive, to grow, and to be in line with the ever changing future. In order to achieve this broad objective every organization needs to be sensitive to its environment. Nystrom's definition of innovation is also quite similar to the one given by Schumpeter (1934), who has been widely recognized as one of the earliest and most significant contributors to the theory of innovation (Rickards, 1985). Schumpeter was also regarded as the first person to recognize the importance of innovation in competition among firms, in the evolution of industrial organizations, and in the process of economic growth. His concept of innovation encompasses not just new products or processes, but also new forms of organization, new markets, and new sources of raw materials (Nystrom, 1990). Gaynor (2002) pointed out that innovation does not require genius, but it does require a system-wide dedication to pursue unique opportunities. Similarly, Drucker (1998) explicitly stated that innovation is work rather than genius and that successful innovation requires hard, focused, and purposeful work.

Two main types of innovation are important to innovativeness of firms: technological innovations and continuous improvement (Zain, 1995; Zain & Rickards, 1996; Lin & Chen, 2007). Technological innovations allow organization to achieve big or drastic improvement while continuous improvement allows them to keep on improving their operations and prevent

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