

Available online at www.sciencedirect.com

ScienceDirect

Procedia - Social and Behavioral Sciences 211 (2015) 437 – 441

Procedia
Social and Behavioral Sciences

2nd Global Conference on Business and Social Science-2015, GCBSS-2015, 17-18 September
2015, Bali, Indonesia

Communication and Service Innovation in Small and Medium Enterprises (SMEs)

Zuraida Hani Zulkepli^{a*}, Norlena Hasnan^b, Shahimi Mohtar^c

^{a,c} *School of Technology Management and Logistics, Universiti Utara Malaysia, 06010, Kedah, Malaysia*

^b *Universiti Utara Malaysia Kuala Lumpur, 50300, Kuala Lumpur, Malaysia*

Abstract

Service innovation is a new or improved service product or service process that is based on technology. In Malaysia, service innovation is recognized as the main drivers who contribute to economic growth of the country. The discussion has not explicitly provided a structural connection between communication and service innovation. Many considered communication underpinned the organizational values and culture that lead for the innovation, yet it still unclear and more exploration required. Therefore, this paper attempts to provide a detailed discussion on the influence of communication on service innovation and the constraint in the implementation of service innovation in SMEs.

© 2015 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Organizing Committee of the 2nd GCBSS-2015

Keywords: Service innovation; small and medium enterprises; communication; technology; economic growth

1. Introduction

Over the past decade, service economy has been growing rapidly and may lead to an increase in employment, competitiveness, innovation and economic growth (Hauknes, 1998; Tether, 2005). Services are provided in all types of business, ranging from SMEs, joint ventures, consulting firms, internet services, transport, tourism, social welfare, telecommunication services and others.

* Corresponding author. Tel.: +6-019-4524693
E-mail address: zuraidahanie@gmail.com

In Malaysia, service innovation is recognized as the main drivers that contribute to value creation, economic growth and social welfare of the country and are mainly focused on SMEs because of the critical influence of these industries on GDPs.

This influence creates tremendous potential for growth and profitability (Lin & Hsieh, 2011; Rust & Miu, 2006). SMEs participation in services innovation indirectly positive impact in improving innovation, productivity and promotes healthy competition within the organization and enables the company to attract new customers, retain existing customers and increase shareholder value (Gustafsson & Johnson, 2003). In addition, in order to provide better service and gain a competitive edge, the company needs to decide how to use the resources of their business.

Basically service innovation is divided into two types such as product innovation and process innovation (Dosi, 1988; Teece, 1989; Utterback & Abernathy, 1975). Service products are something that customers have to pay to receive although it may be intangible. This service can also be applied to tangible product. Meanwhile service process act as a new solution to consumers, introduce new ways to organize and manage service and use of new distribution methods. Service innovation is beneficial to both producers and consumers of services. First, service companies can produce unique innovations (Ashurst, Freer, Ekdahl & Gibbons, 2012) Second, service companies play an important role in developing the creative workers (Martinez & Orfila, 2009).

This paper is conducted in the context of the Malaysia service sector which has been receiving a great deal of attention from the government. Although there are many studies in this field, the research gap in the services sector is still unclear, especially in service innovation (Chen, Tsou & Ching, 2011). Furthermore, this paper aims to discuss in detail the influence of communication on service innovation. Besides, this paper also focused on some of constraint in the implementation of service innovation in SMEs.

2. Service innovation

Innovation has contributed to the main source of competitive advantage for business organizations (Schumpeter, 1934), including in the service sectors. In fact, service innovation leads to the highest economic growth in recent years.

The study of service innovation was introduced by Richard Barras (1986). Service innovation has introduced something new to the ways of life, organization, time and place; it is through a process between individuals and groups with customers (Barcet, 2010). For example, new customer interaction channels, through new distribution system or a combination of them. Moreover, this service is a fundamental source of value creation and a key enabler of competitive advantage (Cinite, 2010).

In addition, service innovation is commonly based on using the latest technology, labor and the ability of an organization to manage the resources available. This development may be related to customer communications where service innovation has created obstacles for firms in providing services to customers (Den Hertog, Van der Aa, & De Jong, 2010). Communication is important in providing new information such as the knowledge on technology to enable service innovation to be applied in SMEs.

3. Communication

Communication is the words of people understand through interaction with others in order to exchange information. It can also be defined as the exchange of ideas among people (Cartier & Harwood, 1953). Communication is divided into two types such as internal communication and external communication. Internal communication focuses on the organization's management and internal stakeholders (Welch & Jackson, 2007). Meanwhile, the external communications involve audience outside the organization (Saunders, 1999). Both of these have been identified as a corporate communication.

As described by Gruner and Homburg (2000); Lundkvist and Yakhlef (2004), the process of communication and social interaction with customers is important in ensuring the success of products and services. As stated by Turkel (2004), the more you communicate the more issues you open up to address. Furthermore, according to Payne, Storbacka and Frow (2006) communication can indicate a company's ability to manage value co-creation. Therefore, this paper aims to emphasize the communication between companies and customers, and this relationship can ensure the success of the product and service innovation in the market.

3.1. *Internal communication*

As mentioned by Welch and Jackson, (2007) internal communication is defined as communication between individuals or groups of different levels and areas of specialization. It aims to design and redesign the organization to coordinate daily activities. The exchange and sharing of information between individuals from different functional departments to ensure the success of the new service innovation.

Internal communications exist within a company and among employees. For examples, emails, face to face conversations, memorandums and formal meetings. Conduit and Mavado (2001) identified the main benefits of internal communication are to increase productivity, improve product and service quality, enhance levels of innovation and reduced costs. The effectiveness of communication is influenced by the overall quality of internal communication during the process of service innovation. The communication quality is measured based on the information that can be understood by the receiver (ie project teams) in a timely manner.

3.2. *External communication*

External communication is very important to create a brand image and identity. Therefore, the perception among existing customers and potential customers to a corporate brand is based on brands from outside the organization. It is through communication between customers and employees in the services sector (Foster, Punjasiri & Cheng, 2010).

Furthermore, the focus of external communication is based on the audience outside the organization whose role as consumers, investors and regulatory bodies. Examples of external communications including factsheets, pamphlets, magazines and annual reports. Saunders (1999) states that companies that have good external communication indicates the characteristics of a visionary company as an innovator. They can show a consistent increase in profitability, market share and stakeholder concern (Bonn, 2001).

3.3 *Interrelation between internal and external communication*

The difference between internal and external communication is important to ensure successful communication within the organization. According to Horrigan and Juskiw (2010) the relationship between employees and customers is influenced by the attitudes, perceptions and behaviors. Furthermore, when employees face a bad experience with a customer, this will affect his attitude toward customers.

4. **Small and medium enterprises (SMEs)**

According to OECD (2005) SMEs are firms with subsidiaries, independent and has only a small number of employees. Most SMEs are characterized as dynamic, flexibility and having innovative power that can adapt quickly to changes in the economy (Pislaru, Modreanu & CITU, 2012).

SMEs is one of the 'driving forces' of the modern economy for their contribution in improving the technological innovation, increase employment opportunities and encourage the export promotion. The ability of SMEs in innovation is important because it can increase the competitive edge to companies, industry and the economy.

In addition, SMEs have been considered to be the backbone of industrial development in the country. The objective of innovation in SMEs is innovate and create value in the market into society and therefore can support the Vision 2020 to achieve smart growth, inclusive and sustainable. However, in order to achieve this vision, there are several barriers to innovation that have to be taken by the SMEs, as shown in Table 1.

4.1 *Table*

This study has found several obstacles innovation in SMEs and also became the object of investigation in the body of the national and international studies. The most dominant constraints are shown in Table 1.

Table 1. Innovation Barriers in SMEs

Barriers to innovation in SMEs
Financial difficulties- prevent access to external financing,
1. high innovation costs
2. high economic risks
Limited internal person
• to manage the innovation process effectively and efficiently
Missing market
• to meet customer's needs and to enter foreign markets
Bureaucratic
1. long administrative procedures
2. restrictive laws and regulations
Lack of intellectual property rights

Sources: Tiwari and Buse (2007)

Generally, service innovation has been regarded as critical concern implemented by various industries. Thus, SMEs seeking to seize new opportunities in order to maintain a competitive advantage, improve the ability to develop new products and improve innovation in the core of value creation (Raymond & St-Pierre, 2010).

Although the study of innovation tend to focus on large companies, innovation is equally important for small companies. The ability of small companies is seen from the company's ability to offer quality products and services in line with market requirements. Innovations in small companies are actually very different from the innovation in large companies (Rothwell & Dodgson, 1994; Hadjimanolis, 2000). This is because small companies to respond more quickly to changes in the market compared to large companies. Furthermore, the size of small companies makes it even more flexible and free of red tape that hit large companies. For large companies, the companies generally enjoy advantages of resources (Rothwell & Dodgson, 1994), but a bit slow to react to the changing environment. One study determined in the context of manufacturing, small companies are generally more innovative but exhibit less extreme research and development (R&D) and patenting activities than do large companies (Fuller & Matzler, 2007).

5. Conclusion

In conclusion, Malaysia, like many other countries, the economy is dominated by the vast majority of SMEs. As a major contribution of this sector to the economy, Singh, Garg and Deshmukh (2010) states that the development and competitiveness of SMEs should be maintained from time to time to ensure that the position of SMEs can be comparable with local and foreign organizations.

Communication also is important in providing new information such as the knowledge on technology to enable service innovation to be applied in SMEs. Besides, communication and social interaction with customers also is the key to a successful product and service. As a result, SMEs in Malaysia are doing their best in service innovation to ensure that to achieve a high income economy by 2020 become a reality.

References

- Ashurst, C., Freer, A., Ekdahl, J. & Gibbons, C. (2012). Exploring IT-enabled innovation: A new paradigm?" *International Journal of Information Management*, 32 (4), 326-336.
- Barcet, A. (2010). Innovation in services: a new paradigm and innovation model. In F. Gallouj & F. Djellal (Eds.), *The Handbook of Innovation and Services: A Multidisciplinary Perspective* (pp. 49-67). Cheltenham: Edward Elgar.
- Bonn, I. (2001). Developing strategic thinking as a core competency. *Management Decision*, 39 (1), pp. 63-71.

- Cartier, F.A. & K.A. Harwood (1953). Definition of Communication, *The Journal of Communication*, November, 1953, In Doctor, R. and A. Doctor, 1977: *Principles and Practice of Business Communication*, Bombay: Sheth Publishers.
- Chen, J.S., Tsou, H.T. & Ching, R.K.H. (2011). Co-production and its effects on service innovation”, *Industrial Marketing Management*, 40 (8), pp. 1331-1346.
- Cinite I. (2010). *Services Innovation Understanding value creation in the 21st Century*, A research report retrieved from http://www.innovationcultures.com/pdf/EXTR_rep26_EMA_IL.pdf
- Conduit, J., & Mavado, T.F. (2001). How critical is internal customer orientation to market orientation?. *Journal of Business Research*, 51 (1), 11-24
- Den Hertog, P., Van der Aa, W., & De Jong, M.W. (2010). Capabilities for managing service innovation: towards a conceptual framework. *Journal of Service Management*, 21 (4), 490–514.
- Dosi, G. (1988). Sources, Procedures and Microeconomic effect of innovation, *Journal of Economic Literature*, xxvi: 1120-1171.
- Foster C., Punjasiri K. & Cheng R. (2010). Exploring the relationship between corporate, internal and employer branding, *Journal of Product & Brand Management*, 19 (6), 401–409.
- Fuller, J. & Matzler, K. (2007). Virtual product experience and customer participation – A chance for customer-centred, really new products,” *Technovation*, 27 (6), 378-387.
- Gruner, K.E., & Homburg, C. (2000). Does customer interaction enhance new product success?” *Journal of Business Research*, 49 (1), 1–14.
- Gustafsson, A. & Johnson, M.D. (2003). *Competing through Services*, San Francisco, CA: Jossey-Bass.
- Hadjimanolis A. (2000). An investigation of innovation antecedents in small firms in the context of a small developing country. *R&D Management* 30 (3), 235-245.
- Hauknes, J. (1998). *Services in innovation – Innovation in services*, S14S Synthesis Papers No. S1.
- Horrigan, D., & Juskiw, P.(2010). Internal branding and employee attitudes: identifying passion for hospitality excellence and reinforcing it through internal communications.
- Lin, F.R. & P.S. Hsieh, (2011). A SAT view on new service development. *Serv. Sci.*, 3: 141-157.
- Lundkvist, A., & Yakhlef, A. (2004). Customer involvement in new service development, *Managing Service Quality*, 14 (2/3), 249–257.
- Martinez-Ros, E. & Orfila-Sintes, F. (2009). Innovation activity in the hotel industry. *Technovation*, 29, 632–641.
- OECD (2005). *Privire asupra conceptului de IMM-uri și Antreprenoriat/The concept of SME and entrepreneurship - overview*, Paris.
- Payne, A.F., Storbacka, K. & Frow, P. (2008). Managing the co-creation of value. *Journal of the Academy of Marketing Science*, 36 (1), 83–96.
- Pislaru, D., Modreanu I., & Citu, F. (2012). *Contributia IMM-urilor la cresterea economica: prezent și perspective*. Editura Economica, Bucuresti, 240 pg.
- Raymond, L., & St-Pierre, J. (2010). R&D as a determinant of innovation in manufacturing SMEs: an attempt at empirical clarification. *Technovation*, 30 (1), 48-56. DOI: 10.1016/j.technovation.2009.05.005.
- Richard Barras. (1986). *Towards a theory of innovation in services*.
- Rothwell R., & Dodgson M. (1994). Innovation and Size of Firm. In. M. Dodgson and R. Rothwell (eds.). *The Handbook of Industrial Innovation*. Edward Elgar, Aldershot: 310-324.
- Rust, R.T. & C. Miu. (2006). What academic research tells us about service. *Commun ACM*, 49: 49-54.
- Saunders, M. (1999). Linking external communication & organizational effectiveness. *Organizational Development Journal*, 17 (4), 35-40.
- Schumpeter, J.A. (1934). *The Theory of Economic Development*, Cambridge, MA: Harvard University Press.
- Singh R.K., Garg K.G. & Deshmukh S.G. (2010). The Competitiveness of SMEs in a Globalized Economy Observation from China and India,” *Management Research Review*, 33 (1), 54-56.
- Teece, D.J. (1989). Inter-organizational Requirements of the innovation process, *Managerial and Decision Economics*, Special Issue, 35-42.
- Tether, B. S. (2005). Innovation in services. *Industry and Innovation*, 12 (2), 153-184.
- Tiwari, R. & Buse, S. (2007). Barriers to Innovation in SMEs: Can the Internationalization of R&D Mitigate Their Effects?”, in: *Proceedings of the First European Conference on Knowledge for Growth: Role and Dynamics of Corporate R&D*, Seville, Spain, October 8-9, 2007.
- Turkel, S. (2004). Communication is a key factor in franchisors and franchisees getting along. *Lodging Hospitality*. 60 (1), 22-23.
- Utterback, J.M. & Abernathy, W.J. (1975). A Dynamic Model of Process and Product innovation, *Omega*, 3 (6) 639-656.
- Welch, M., & Jackson, R.P. (2007). Rethinking internal communication: a stakeholder approach. *Corporate Communications: An International Journal*, 12 (2), 177-198.