

**THE EFFECT OF INNOVATION STRATEGIES AND BUSINESS ENVIRONMENT IN DELIVERING BUSINESS PERFORMANCE IN MANUFACTURING SME**

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**ABSTRACT**

This paper examines the role business environments (in terms of dynamism and competitiveness) as contingency factors which affect the effectiveness of different types of innovation strategies (in terms of product innovation and process innovation) in delivering business performance. Using the data of 50 manufacturing SMEs in DIY and Jawa Tengah, this study shows the strategic fit between business environments, which can positively moderate innovation strategies in SMEs and affect business performance.

Key words: product innovation, process innovation, dynamic environment, competitive environment, business performance, manufacturing SME

## INTISARI

Tujuan penelitian ini adalah untuk membahas peran *business environments* (*dynamism and competitiveness*) sebagai faktor kontingensi yang mempengaruhi efektivitas berbagai jenis *innovation strategy* (*product innovation and process innovation*) dalam meningkatkan *business performance*. Dengan menggunakan data dari 50 UKM manufaktur di DIY dan Jawa Tengah, penelitian ini menunjukkan fungsi strategis antara lingkungan bisnis, yang dapat secara positif memoderasi strategi inovasi di UKM dan mempengaruhi kinerja bisnis.

Kata kunci: inovasi produk, inovasi proses, lingkungan yang dinamis, lingkungan yang kompetitif, kinerja bisnis, manufaktur UKM