

# Measuring the Organizational Innovation Capabilities (A case study of SMEs Food Industry in Surabaya-Indonesia)

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## Abstract

The presence of Micro, Small and Medium Enterprises (MSMEs) is considered as one of the most important drivers of the economy in Indonesia. The existence of MSMEs can also be the backbone of the community's economy which plays an important role in growing the economy of a region. As happened in East Java Province-Indonesia. MSMEs sector contributes greatly to the economy of East Java. Therefore, the power of small and medium enterprises should not be underestimated. Innovation and development must target MSMEs. Innovation is believed to be an important thing to do in organizations because it can derived organizational success. Specific attributes of Organizational Innovation Capabilities that companies can use to build a company's competitive advantage are: Product Innovation Capabilities and Process Innovation Capabilities. The results of data analysis show that Organizational Innovation Capability is best reflected by Product Innovation Capability, followed by Process Innovation Capability. Future research on different dimension of Organizational Innovation Capability needed to get boarded overview of SMEs Organizational Innovation Capability.

**Keywords:** Organizational Innovation Capability, Product Innovation Capability, Process Innovation Capability

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## 1. Introduction

The presence of Micro, Small and Medium Enterprises (MSMEs) is considered as one of the most important drivers of the economy in Indonesia. The monetary crisis that hit Indonesia in 1998 has proven that MSMEs actually survive when giant companies fall out (Susanti, 2018). In 2018, MSMEs in Indonesia dominate business units to 99.9% of a total of 57.89 million, with a significant contribution to employment absorption of 96.9%, GDP of 57.56% and exports of 15.68% (Yasmin, 2018). For 2019, the contribution of MSMEs sector to the national Gross Domestic Product (GDP) is projected to grow by 5%. With the estimated growth, it is expected that the total contribution of MSMEs to the GDP can reach 65% or around Rp 2,394.5 trillion. Meanwhile, the realization of the contribution of MSMEs to the national GDP in 2018 reached around 60.34% (Syarizka, 2019).

The existence of MSMEs can also be the backbone of the community's economy which plays an important role in growing the economy of a region. As happened in East Java Province-Indonesia. MSMEs sector contributes greatly to the economy of East Java. It was recorded in the first semester of 2018, East Java's economic growth reached 5.57% with GDP at Current Prices reaching Rp544.44 trillion. This achievement was due to the support of MSMEs in East Java. MSMEs also contribute greatly to the realization of investment. The investment realization in East Java in 2017 from the MSMEs sector amounted to Rp152.39 trillion. In the first semester of 2018 it amounted to Rp.95.95 trillion, up 22.87% from the same period in 2017. During 2017, the contribution of MSMEs to total investment reached 56.34%. In the first semester of 2018 it rose to 74.36%. This increase is in line with the rapid growth of MSMEs in East Java. Based on the national economic census, the East Java MSMEs population grew from 6.8 million in 2012, to 9.59 million in 2017 (Hakim, 2018). Therefore, the power of small and medium enterprises should not be underestimated. Innovation and development must target MSMEs.

Innovation is believed to be an important thing to do in organizations because it can derived organizational success (Damanpour & Gopalakrishnan, 1998; Jiménez-Jiménez & Sanz-Valle, 2011; Yesil & Sozibilir, 2013; Vila & Coll-Serano, 2014). Innovation is considered as an organization's way to develop innovative products and services to the public so they can compete in their business environment (Schermuly, Meyer, & Dammer, 2013). Organizations are required to realize that creating new processes and products is very important for organizational growth and productivity in all sectors (Patterson, Kerrin, & Gatto-Roissard, 2009), especially in very turbulent market conditions. Organizational innovation capabilities lead organizations to develop innovations continuously to respond to a changing market environment and are embedded with all strategies, systems and structures that support innovation in an organization (Gloet & Samson, 2016). Organizational

innovation capability is the ability to develop products or services in accordance with market demand by applying processes correctly and quickly in response to technological changes and unexpected opportunities made by competitors.

Burroine and Jaiya (2005) say that a company's capability to innovate varies depending on the business sector, company size, focus, resources and the business environment in which the company operates. Whereas Baldwin et al. (1999) in his study stated that larger companies are more innovative than smaller companies, because they have more ease of access to finance, can spread the innovation fixed costs to larger sales volumes, benefits derived from economies of scale, and mutual complete it (complementarities) between research and development with other activities in the company. Therefore, this study aims to describe the organizational innovation capabilities of SMEs by focusing on medium-scale SMEs engaged in the food industry.

## 2. Literature Review

### 2.1 Organizational Innovation Capability

The initial concept of innovation in economic development and entrepreneurship was popularized by Joseph Schumpeter, a German economist. In Schumpeter's view, innovation consists of elements of creativity, research and development, new products and processes, or inter-technology in technology (Lumpkin & Dess, 2001). This is because from the start, innovation was considered as an effective way to increase organizational productivity (Lumpkin & Dess, 1996), and was seen as one of the most important competing weapons (Sandvik & Sandvik, 2003), so that organizational innovation capabilities were which is very important for the organization to take advantage of new opportunities, and to gain competitive advantage (Bakar & Ahmad, 2010).

The notion of organizational innovation capability refers to the mechanism applied by organizations to adapt to changing competitive conditions, technological advances, and market expansion by producing newer products, techniques, and systems (Utterback, 1994; Dougherty & Hardy, 1996). In a broad scope, organizational innovation capabilities can be defined as the ability of the organization to fulfill organizational strategy assumptions, and adjust it to various conditions and environments that are full of competition (Guan & Ma, 2003). In the simplest terms, organizational innovation capability is defined as the tendency of organizations to develop or improve new products / services, and their success in bringing these products / services to market (Gumusluoglu & Ilsev, 2009). Thus, it can be concluded that organizational innovation capability is an important ability possessed by the organization to obtain strategic competitiveness.

### 2.2 Product Innovation Capability

Product innovation capability means the ability of an organization to introduce new products / services or provide a significant increase in existing products / services (Polder et al., 2010). Product innovation can be in the form of new products or old products that have increased significantly, with respect to its features, such as: how to use; software; user-friendly; or component; and material. Design changes that bring significant changes in the intended use or product characteristics can also be considered as product innovation (OECD, 2005). Product innovation has many dimensions. First, from the customer's perspective, the product must be viewed by the customer. Second, from a company perspective, the product is a new product for the company. Third, product modification means bringing a variety of products in existing products from the company (Atuahene-Gima, 1995).

### 2.3 Process Innovation Capability

Process innovation capabilities mean the ability of the organization to improve production and logistics methods, which significantly or bring significant improvements, in supporting activities such as purchasing, accounting, maintenance, computing (Polder et al., 2010) and others. OECD (2005) defines process innovation as the implementation of a new production or delivery method, or which significantly increases. The method must be at least new for organizations and organizations never to carry out the same thing before. Organizations can develop the new process either independently or with the help of other organizations (Polder et al., 2010).

## 3. Methodology

Research design constitutes the blue print for collection, measurement, and analysis of data. This research study

was a cross-sectional survey of food industry SMEs in Surabaya. The proposed study population comprised of 112 SMEs. This is because in accordance with the research objectives that have been proposed, this research uses purposive sampling technique, where this technique requires the way sampling based on certain criteria. The sampling criteria used in this study are:

1. Located in Surabaya
2. The age of SME is  $\geq 3$  years

SMEs are a vulnerable type of business, and have a high failure rate. More than 70% of SMEs failed during the first three years of their operations. Statistics show that eight out of ten new ventures fail within the first three years. On that basis, according to the research objectives to be achieved, this study took a sample of SMEs that have stood for more than three years.

3. Categorized as medium-sized enterprises

The smaller the organization, the more difficult it is to determine its limits. Small businesses, consisting of one or several people, are generally composed of the same family members, and strongly influenced by family inheritance, making it vulnerable to bias. On that basis, in accordance with the research objectives to be achieved, this study took a sample of SMEs with medium scale.

Based on data from the Central Bureau of Statistics, the number of food industry SMEs in accordance with the characteristics established in the area of Surabaya is as many as 112 SMEs. This study in determining the number of samples using Slovin formula:

$$n = \frac{N}{1+Ne^2}$$

Where:

n = number of sample

N = population size

e = level of error

In this research the value of e is 5%, so the minimum sample amount used by researchers is 88 SMEs.

Questionnaires were used to collect primary data and the respondents were the owner / general managers in each of the firms. The questionnaires were administered using drop and pick later method.

The results of the survey were analyzed using descriptive statistics of mean and standard deviation to interpret the 5-point Likert scale type responses. Each element of the two dimensions of organizational innovation capability were analysed using frequencies and percentages to enable independent assessment of the effectiveness of each element as well as appraise the overall effectiveness of the tool in the industry.

#### 4. Result

Validity test is done through Pearson Product Moment Correlation test. The test result showed that the Pearson Product Moment Correlation value between each indicator with total scores of the variable yields a significance value of  $\leq 0.05$  ( $\alpha = 5\%$ ), so it can be concluded that all the indicators tested in this study are valid and thus all the indicators (statements used in the questionnaire) are representative in measuring Organizational Innovation Capability.

Table 1. Pearson Product Moment Correlation Test

Dimensions	Indicators	<i>Pearson Correlation</i>	Sig. (2 tailed)	Statement
Product Innovation Capability	The company's ability to create new products	0.674	0.000	<i>Valid</i>
	The company's ability in product renewal	0.769	0.000	<i>Valid</i>
	The company's ability in developing product variants	0.776	0.000	<i>Valid</i>
	The company's ability to renew production processes	0.864	0.000	<i>Valid</i>
	The company's ability to create new production processes	0.573	0.000	<i>Valid</i>
	The company's ability to respond the changes in consumer tastes	0.416	0.000	<i>Valid</i>
Process Innovation Capability	The company consistently adopts the latest technology	0.855	0.000	<i>Valid</i>
	The company consistently adopts the latest human resource practices	0.680	0.000	<i>Valid</i>
	The company consistently adopts the latest customer service practices	0.813	0.000	<i>Valid</i>
	The company consistently adopts the latest operational practices	0.869	0.000	<i>Valid</i>

Reliability test is done through Cronbach Alpha test. The test result showed that the Cronbach Alpha value yields a value of  $\geq 0.6$ , so it can be concluded that all the indicators tested in this study are reliable and thus all the indicators (statements used in the questionnaire) are consistent in measuring the variable.

Table 2. Cronbach Alpha Test

Variable	<i>Cronbach Alpha</i>	Statement
Organizational Innovation Capability	0,907	<i>Reliable</i>

Organizational Innovation Capability in this research is consist of two composite variables, namely: Product Innovation Capability and Process Innovation Capability. Table 3 shows the respondent's average answer for the latent variable Organizational Innovation Capability is 3.56 with the agreed category, which means that on average the respondents, namely middle-business owners of the food industry in Surabaya, assess their Organizational Innovation Capability is high. Product Innovation Capability is considered by food industry medium-sized business owners as the highest capability, this is reflected in the value of X1 of 3.81. Process Innovation Capability is considered by the food industry medium business owners to be relatively lower, this is reflected in the value of X2 which is only 3.32.

Table 3. Description of Respondents Answer for Organizational Innovation Capability

No.	Dimensions	Mean	Statement
X1	Product Innovation Capability	3,81	Agree
X2	Process Innovation Capability	3,32	Agree
Mean		3,56	Agree

In detail the description of the respondent's answers to the latent variables of Organizational Innovation Capability are as follows:

#### 4.1 Product Innovation Capability

Product Innovation Capability consist of six indicators. Assessment of each indicator is presented in Table 4. Table 4 shows the respondent's average answer for the composite variable Product Innovation Capability is 3.81 with the agreed category, which means that on average the respondents, namely the food business owners of the food industry in Surabaya, assess the company's Product Innovation Capability is high.

Table 4. Description of Respondents Answer for Product Innovation Capability

No.	Indicators	Frequencies					Average	Statement	Std. Dev
		1	2	3	4	5			
X1.1	The company's ability to create new products	0	6	29	41	12	3,67	Agree	0,798
X1.2	The company's ability in product renewal	0	3	30	35	20	3,82	Agree	0,824
X1.3	The company's ability in developing product variants	0	3	38	30	17	3,69	Agree	0,822
X1.4	The company's ability to renew production processes	0	18	12	44	14	3,61	Agree	0,988
X1.5	The company's ability to create new production processes	0	0	36	27	25	3,88	Agree	0,828
X1.6	The company's ability to respond the changes in consumer tastes	0	0	12	59	17	4,06	Agree	0,575
Mean							3,81	Agree	

The results of the respondents' answers to the composite variable Product Innovation Capability shows that on average the mid-sized business owner of the food industry judges that the company's ability to respond to changes in consumer tastes is high, this is reflected in the X1.6 indicator value of 4.06, which is also the highest value for composite variable Product Innovation Capability. The company's ability to create a new production process is also considered high, as reflected in the X1.5 indicator value of 3.88; and the company's ability to renew products is also considered high, as reflected in the X1.2 indicator value of 3.82. However, the company's ability to renew the production process, the creation of new products, and the development of product variants is still considered relatively lower. This is indicated by the value of the X1.4 indicator (production process renewal) of 3.61, X1.1 (new product creation) of 3.67, and X1.3 (product variant development) of 3.69, which is the lowest value for composite variables Product Innovation Capability.

#### 4.2 Process Innovation Capability

Process Innovation Capability consist of four indicators. Assessment of each indicator is presented in Table 5. Table 5 shows the average respondent's answer for the composite variable Process Innovation Capability is 3.32 with a neutral category, which means that on average the respondents, namely the middle-business owner of the food industry in Surabaya, assess the Process Innovation Capability of the company is relative.

Table 5. Description of Respondents Answer for Process Innovation Capability

No.	Indicators	Frequencies					Average	Statement	Std. Dev
		1	2	3	4	5			
X2.1	The company consistently adopts the latest technology	3	18	20	35	12	3,40	Neutral	1,067
X2.2	The company consistently adopts the latest human resource practices	3	23	23	30	9	3,22	Neutral	1,055
X2.3	The company consistently adopts the latest customer service practices	3	17	36	23	9	3,20	Neutral	0,984
X2.4	The company consistently adopts the latest operational practices	3	15	26	36	8	3,35	Neutral	0,983
Mean							3,32	Neutral	

The results of respondents' description of answers to the composite variable Process Innovation Capability shows that on average the mid-sized business owners of the food industry judge that the company's ability to

consistently adopt the latest technology is high, this is reflected in the X2.1 indicator value of 3.40, which is also the highest value for the composite variable Process Innovation Capability. The company's ability to consistently adopt the latest operational practices is also considered high, reflected in the X2.4 indicator value of 3.35. However, the company's ability to consistently adopt the latest consumer service and human resources practices is still considered relatively lower. This is indicated by the X2.3 indicator value (the latest consumer service practice) of 3.20, and X2.2 (the latest human resource practice) of 3.22, which is the lowest value for the composite variable Process Innovation Capability.

Table 6. Outer Loading

Latent Variable	Dimensions	Indicators	Outer Loading
Organizational Innovation Capability	Product Innovation	The company's ability to create new products	0,723
		The company's ability in product renewal	0,857
	Capability	The company's ability in developing product variants	0,820
		The company's ability to renew production processes	0,892
		The company's ability to create new production processes	0,676
		The company's ability to respond the changes in consumer tastes	0,508
	Process Innovation Capability	The company consistently adopts the latest technology	0,925
		The company consistently adopts the latest human resource practices	0,805
		The company consistently adopts the latest customer service practices	0,860
		The company consistently adopts the latest operational practices	0,923

## 5. Discussion

O'Cass and Ngo (2009) define Organizational Innovation Capability as an integrative process in applying the organization's knowledge, skills, and collective resources to carry out innovation activities related to technical innovation (products and / services, and production process technology), and non-innovation -technical (managerial, market, and marketing). Specific attributes of Organizational Innovation Capabilities that companies can use to build a company's competitive advantage are: Product Innovation Capabilities and Process Innovation Capabilities.

The results of data analysis show that Organizational Innovation Capability is best reflected by Product Innovation Capability, followed by Process Innovation Capability. The food industry is a dynamic industry, so the ability of organizations to innovate is very important to ensure the sustainability and competitive advantage of the company. For Small and Medium Enterprises (SMEs), Product Innovation Capability is the main force that can be used to achieve competitive advantage and sustainable company performance (Keizer & Halman, 2002; Ussahawanitchakit, 2012). On the other hand, to produce new products or breakthroughs, companies sometimes have to innovate processes (Adner & Levinthal, 2001). Another reason is because process innovations are also useful to reduce the company's production costs (Olson et al., 1995 in Okeke et al., 2016). This is because the Process Innovation Capability can significantly influence the efficiency and productivity of the organization (Ettlie & Reza, 1992), although it may be in the long run. This is what causes the Product Innovation Capability to best reflect the Company's Innovation Capability, followed by Process Innovation Capabilities.

The results of the respondents' answers indicate that the average food industry SME owner in Surabaya assesses the Organizational Innovation Capability owned by companies is high. This is because the majority of SMEs who were respondents in this study have been established for more than five years, so that they already have an adequate budget allocation for innovation activities. This is also supported by the presence of a research and development department, which was held to produce innovative products for the company. This is what causes the Product Innovation Capability to be perceived by the average SME owner of the food industry in Surabaya as the highest innovation capability. While Process Innovation Capability is perceived to be the average food industry SME owner in Surabaya as a relatively lower innovation capability. This is because even though process

innovation needs to be done to deal with changes in the environment, the company is not easy to adopt because it requires more commitment and resources compared to product innovation. Moreover, the results of process innovations are usually more long-term in nature, so the effects cannot be directly felt as in product innovation.

Product Innovation Capability means the ability of an organization to introduce new products / services or provide a significant increase in existing products / services (Polder et al., 2010). Product innovation capabilities include: the ability to renew production processes and products including product development, the ability to create new products and production processes, and the ability to respond to changes in consumer tastes.

Based on the value of outer loading, it is known that the composite variable of Product Innovation Capability (X1) is best able to be reflected by the indicator of the company having the ability to renew the production process (X1.4), followed by the company's indicators of product renewal (X1.2). Development of product variants (X1.3), company indicators have the ability to create new products (X1.1), company indicators have the ability to create new production processes (X1.5), and finally company indicators have the ability to respond to changes in consumer tastes (X1.6).

The food industry is a dynamic industry. Research shows that companies in a more turbulent external environment have a higher potential for innovation. This is because a turbulent environment will trigger companies to incorporate innovation into their business strategies in order to remain able to compete and survive (Madrid-Guijarro et al., 2009). One strategy that can be used is the renewal of the production process. Renewal of the production process is usually followed by product renewal, or the development of product variants. This is because when companies are able to get out of structured routines, companies will be able to identify new opportunities to adjust to environmental change (Nelson & Winter, 1982; Hannan & Freeman, 1984 in Okeke et al., 2016). This is what causes the company's indicators to have the ability in renewing the production process to be the most able indicator to reflect the composite variable Product Innovation Capability, followed by company indicators having the ability in product renewal and company indicators having the ability to develop product variants.

Furthermore, the ability to create economic value through the creation of new products and processes also shows innovative characteristics of a company or industry (Cantwell, 2003; Gault, 2010), although not the main characteristic. This is because fundamental innovations will create new forms of competition and open new markets to service new products, which are usually difficult for Small and Medium Enterprises (SMEs) due to limited resources. This type of innovation is usually only suitable for large businesses (Okeke et al., 2016). This is what causes company indicators to have the ability to create new products, and company indicators have the ability to create new production processes into the fourth and fifth indicators that are able to reflect the composite variables of Product Innovation Capability.

Finally, a strong understanding of customer needs and markets, combined with better access to resources can quickly open up success for innovation (Harary, 2013 in Okeke et al., 2016). However, this understanding must be supported by technological capabilities, flow information and skills which include: technical, managerial and institutional arrangements. This is what causes the company's indicators to have the ability to respond to changes in consumer tastes to be the last indicator that is able to reflect the composite variable of Product Innovation Capability.

Based on the descriptive value of respondents' answers it is known that the composite variable indicator of Product Innovation Capability (X1) is the highest perceived average of food industry SME owners in Surabaya is an indicator that the company has the ability to respond to changes in consumer tastes (X1.6), followed by company indicators have the ability to create a new production process (X1.5), company indicators have the capability in product renewal (X1.2), company indicators have the ability to develop product variants (X1.3), company indicators have the ability to create new products (X1.1), and finally corporate indicators have the ability to renew the production process (X1.4).

The majority of SMEs who were respondents in this study have been established for more than five years, so the average food industry SME owner in Surabaya perceives that responding to changes in consumer tastes is no longer a difficult thing in the company. Various steps of innovation have been carried out in order to respond to changes in consumer wants and needs, including through the creation of new production processes. The creation of a new production process is possible because the company already has sufficient knowledge about the deficiencies in the company's production process that come from the company's business experience. This is what causes the company indicators to have the ability to respond to changes in consumer tastes, which are perceived to be the highest by the average SME owner of the food industry in Surabaya, followed by indicators of companies having the ability to create new production processes.

The age of SMEs who were respondents in this study, the majority of which were more than five years old was also perceived as giving the company the ability to develop product variants. The company is perceived as having expertise in processing and producing the company's main products, so that it is perceived more confident to be creative with old products and in creating new products. This is what causes the company's indicators to have the ability to renew products perceived by the average SME owner of the food industry in Surabaya, followed by company indicators that have the ability to develop product variants, and company indicators have the ability to create new products.

The lowest perceived indicator is an indicator that the company has the ability to renew the production process. This is because the average SME owner of the food industry in Surabaya perceives that the renewal of the production process requires large costs and investments. Even though it is perceived as the lowest, this indicator is still of high value, which means that the average food industry SME owner in Surabaya perceives the renewal of the production process is still something that needs to be done, especially to maintain the effectiveness and efficiency of the company's production process and increase the company's competitiveness. This is also because the majority of SMEs who are respondents in this study have been established for more than five years, so that they are perceived to have had a budget allocation to renew the company's production process.

Process Innovation Capabilities mean the ability of an organization to significantly improve the process of a company's activities or bring significant improvements in supporting activities such as purchasing, accounting, maintenance, computing (Polder et al., 2010). Process innovation capabilities include: consistency in adopting the latest technology, the latest operations, the latest service practices, and the latest human resource practices.

Based on the value of outer loading, it is known that the composite variable of Process Innovation Capability (X2) is best able to be reflected by the company's indicators consistently adopting the latest technology (X2.1), followed by the company indicators consistently adopting the latest operational practices (X2.4), the latest consumer service practices (X2.3), and finally the company has consistently adopted the latest human resource practices (X2.2).

The food industry is a dynamic industry, so companies are required to consistently adopt the latest technology to achieve competitive advantage (Porter, 1985). Technology is a broad concept that is used to refer to breakthroughs in science that enable better or automated solutions (Utterback, 1994). The ability of companies to consistently adopt the latest technology allows companies to choose and use technology with strategic objectives (Gomel & Sbragia, 2006; Rush et al., 2007), namely: to create new methods, processes and techniques (Afuah, 2002), and most importantly, to offer new products (Zhou & Wu, 2010). And once the new product is designed, the company needs to design its production on a commercial scale. This is only possible with the adoption of the latest operational practices, namely the realization of products created by the ability to adopt the latest technology (Zawislak et al., 2016). This is what causes the company's indicators to consistently adopt the latest technology to be the most able indicator to reflect the composite variable Process Innovation Capability, followed by indicators that the company consistently adopts the latest operational practices.

Furthermore, the food industry is an industry engaged in the manufacturing sector. Service of the manufacturing sector refers to the evolution of the ability of manufacturing companies to provide services, as a complement or substitute for products produced by the company. Consistently providing the latest customer service practices in the manufacturing sector such as the food industry, will be able to create value for customers because it is able to make customers perceive company services different from competing services (Baines et al., 2009). This is what causes the company's indicators to consistently adopt the latest consumer service practices as the third indicator that is able to reflect the composite variable Process Innovation Capability.

Finally, both the adoption of the latest technology, the adoption of the latest operational practices, and the adoption of the latest customer service practices play an important role in the company. The first is responsible for creating new products, while the second allows the creation of new products on a commercial scale, and the third allows the marketing of new products widely. However, to ensure that these three capabilities are able to work synchronously, each company needs the ability to integrate and coordinate it (Zawislak, 2012), namely the ability of human resources. This is what causes the company's indicators to consistently adopt the latest human resource practices to be the last indicator capable of reflecting the composite variable Process Innovation Capability.

Based on the descriptive value of respondents' answers it is known that the composite variable indicator of Process Innovation Capability (X2) which is the highest perceived by the average owner of the Small and Medium Enterprises (SMEs) in the food industry is an indicator that the company consistently adopts the latest technology (X2.1), followed by company indicators consistently adopting the latest operational practices (X2.4),



company indicators consistently adopted the latest human resource practices (X2.2), and finally the company indicators consistently adopted the latest consumer service practices (X2.3).

The rapid technological development has caused the average food industry SME owner in Surabaya to perceive the need to adopt the latest technology in the process of the company's activities so as not to lag behind its competitors. This is because adopting the latest technology usually leads to automation which has an impact on increasing the effectiveness and efficiency of the company's activity processes. On the other hand, the adoption of the latest technology will usually be followed by the adoption of the latest operational practices, to ensure alignment between the standard operating procedures that are carried out and the technology used. Furthermore, alignment with human resource practices and customer service practices must also be carried out. This is because human and consumer resources are parties that are directly affected by changes in the process of the company's activities. This is what causes the company's indicators to consistently adopt the latest technology, the highest perceived by the average food industry SME owner in Surabaya, followed by company indicators consistently adopting the latest operational practices, company indicators consistently adopt the latest human resource practices, and finally corporate indicators consistently adopting the latest customer service practices. However, overall the composite variable of Process Innovation Ability is perceived to be neutral by the average SME owner of the food industry in Surabaya. This is because the average SME owner of the food industry in Surabaya perceives process innovation requires a large investment, so the company has a limited ability to adopt it.

## 6. Conclusion

The results of data analysis show that Organizational Innovation Capability is best reflected by Product Innovation Capability, followed by Process Innovation Capability. The results of the respondents' answers indicate that the average food industry SME owner in Surabaya assesses the Organizational Innovation Capability owned by companies is high. While Process Innovation Capability is perceived to be the average food industry SME owner in Surabaya as a relatively lower innovation capability. Based on the value of outer loading, it is known that the composite variable of Product Innovation Capability is best able to be reflected by the indicator of the company having the ability to renew the production process, followed by the company's indicators of product renewal. Development of product variants, company indicators have the ability to create new products, company indicators have the ability to create new production processes, and finally company indicators have the ability to respond to changes in consumer tastes. Based on the value of outer loading, it is known that the composite variable of Process Innovation Capability is best able to be reflected by the company's indicators consistently adopting the latest technology, followed by the company indicators consistently adopting the latest operational practices, the latest consumer service practices, and finally the company has consistently adopted the latest human resource practices.

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