

ABSTRACT

SMEs play a major role in Indonesia's economic development, some of which are managed by families and belong to the family businesses. To be able to compete, especially SMEs which are family businesses, it is necessary to innovate. The company's success in innovating can be seen from the increase in company performance. The purpose of this study is to see the effect of innovation from small and medium family businesses in Malang City on their performance, and to see whether family involvement has an influence (weakening or strengthening) for innovation on company performance. The main object of this research is small and medium family businesses in Malang City which are being or are starting to be managed by a minimum of the third generation. Innovation is seen from product innovation, process innovation, marketing innovation and organizational innovation. Performance is seen from financial performance and business process performance as well as internal family involvement. This research is a quantitative research with causal research type. Using a sample of 30 SME family businesses in Malang City which are managed by a minimum of the third generation. Data were collected using self-administrative questionnaire. Hypothesis testing was carried out using Structural Equation Model (SEM) based on Partial Least Square (PLS). The results showed that process innovation and organizational innovation had a significant positive effect on financial performance. Process innovation has a significant negative effect and organizational innovation has a significant positive effect on the performance of internal business processes. Family involvement strengthens the process innovation relationship but weakens the relationship between organizational innovation and financial performance significantly. Family involvement significantly weakens the relationship between marketing innovation and internal business process performance.

Keywords: innovation, company performance, family involvement, family company, Small and Medium Enterprises