Innovation is at the heart of economic advancement of firms as well as nations. In a business setting, innovations are considered to be strategically essential, through which a firm can develop positive outcomes in the form of improved business performance and competitive advantage ensuring organizational sustainability, in the long run. Practically, almost all the new firms would have started from a development which is innovative. If the firm has to survive and expand subsequently, it is imperative that they must constantly innovate, at least gradually. The meaning of ‘innovation’ is no longer restricted to ‘R and D’, but has several dimensions and each of them is perceived to be critical for acquiring competitive advantage. Innovation, in its generally accepted definition, refers to an idea or behaviour new to the adopting organization. Traditionally, the term ‘innovation’ was limited in its scope by referring only to technological innovations. However, the term has wider connotation now to include marketing and administrative innovations also in its purview. Research evidence shows that there exists a strong correlation between business performance and innovations. The impact of innovation adoption on firm performance invariably portrays the success or failure of innovations adopted by the firm and stands to measure the comparison between the innovating and non innovating firms. However, measuring such impact is an important issue as it ranges from effects on sales to improved market share to changes in productivity and operational efficiency and so on. This paper is the outcome of an empirical research on the various types of innovations adopted by Small and Medium Enterprises (SMEs) and their impact on business performance. Tirupur knitwear cluster, an internationally acclaimed business district situated in Tamil Nadu, India has been taken as the universe for the purpose of the study. The final results indicated that majority of the respondents in the cluster were high adopters of innovation in their respective businesses. The most frequently adopted innovations in the cluster were found to be administrative innovations followed by marketing and technological innovations. Innovation adoption has significant positive influence on the business performance of the firms, measured in terms of both financial and market performance indicators. Innovation adoption has significant influence on the turnover achieved by the responding firms. Whether the company adopts technological, administrative or marketing innovations, the impact of each of the three is more felt on market performance of the firms. The research contributes to the domain of knowledge on innovation management. The study adds to the existing research findings on innovation adoption among SMEs in the context of industrial clusters, specifically the knitwear industry. Based on the findings and extensive literature analysis, recommendations have been made for future research and policy implications. Tirupur being a closely knit cluster, the successful innovation experiences of one firm will spread swiftly in the cluster and this can help in developing and sustaining competitive advantage of the cluster as a whole. The existing innovation culture and capability can be examined by the practicing managers and steps can be taken to promote the same thereby improving the business performance. Government policy initiatives can be directed towards building this up, especially so because the cluster contributes extensively to the foreign exchange earnings of the country.