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THE IMPACTS OF BUSINESS INNOVATION ON SMALL INDUSTRY
PERFORMANCE

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This report is submitted in partial fulfillment of the requirements for
Bachelor Degree of Technology Management (Technology Innovation) with
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DECLARATION

I hereby declared that this report entitled
“The Impacts of Business Innovation on Small Industry Performance”
is based on my original work except for citations and quotations which have been
duly acknowledged. I also declare that it has not been previously and concurrently
submitted for any other degree or award at UTeM or other institutions.

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DEDICATION

This humble work is dedicated to:

My supportive family, for the limitless love and sacrifices;

My dearest supervisor, for the never ending words of encouragement;

My greatest friends, for being who they are;

And above all

To Allah SWT, the Almighty and;

Muhammad SAW, the best teacher and messenger.

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Alhamdulillah, all praises to Allah, the Lord of the Universe for His wills and graces for me to complete this thesis. Peace and blessings be upon our precious Muhammad SAW who shows us the brightest path, so that we will always be under the mercy of the Merciful, Allah SWT.

I would like to express my honest appreciation to my supervisor, Mr. Albert Feisal @ Muhd Feisal Bin Ismail, who has been the biggest help for me from the beginning until the completion of this research. He has always been extremely generous with his time, knowledge and effort during all phases of this research. My gratitude is also to the positive criticisms and suggestions granted by my panel, Dr. Nurulizwa Binti Abdul Rashid that was assists me in improving my work.

My appreciation is also extended to my beloved and brilliant friends for always being there when I needed them to be. This journey would not be completed without the time spent and words of inspiration by them for me to successfully complete this research.

Last but not least, my unconditional love and gratefulness to my dearest family for their boundless love, generous support and continuous prayers that they provided throughout the process of completing my degree and particularly through the completion of this research.

Thank you.

ABSTRACT

Micro entrepreneurs are essential to individual and nation. Innovation looks has a great opportunities to help them in order to increase performance at every aspect such as business and financial. The innovation is to ensure that the micro entrepreneurs do some improvement in their business efficiently. The purpose of this research is to investigate the level of perception on adopting innovation, identify the factors and elements, and investigate the innovativeness that micro entrepreneurs have done in their business. This researcher used quantitative methods in order to collect data. The conceptual framework is being used in this study in order to identify the individual factor influence in each independent variable and dependent variable. The significant of study is to emphasize the importance of entrepreneur training regarding creativity and innovation. The literature reviews have emphasized in detail about the literature review on innovativeness aspects that influence business performance in entrepreneurs of AIM. Descriptive statistical analysis was conducted to describe the respondents besides Pearson Correlation analysis was used to determine the relationship among variables. The finding in this study showed that two of the three hypotheses have been accepted. Therefore, researcher has concluded that there are positive significant relationship between independent variables and dependent variable and the recommendation for the future research has been made in order to look this study in details.

Keywords: Innovation, business performance, innovation factors, micro businesses.

ABSTRAK

Usahawan mikro sangat penting untuk individu mahupun negara. Inovasi kelihatan mempunyai peluang yang sangat baik untuk membantu mereka dalam meningkatkan prestasi dalam setiap aspek seperti perniagaan dan kewangan. Inovasi ini adalah untuk memastikan para usahawan mikro melakukan peningkatan dalam perniagaan mereka dengan cekap. Tujuan penyelidikan ini adalah untuk menyiasat tahap persepsi tentang penggunaan inovasi, mengenal pasti faktor dan elemen, dan menyiasat inovasi yang dilakukan oleh usahawan mikro dalam perniagaan mereka. Penyelidik menggunakan kaedah kuantitatif untuk mengumpul data. Rangka konseptual telah digunakan dalam kajian ini untuk mengenal pasti pengaruh faktor individu dalam setiap pemboleh ubah bebas dan pemboleh ubah bergantung. Pentingnya kajian adalah untuk menekankan betapa pentingnya latihan keusahawanan mengenai kreativiti dan inovasi. Tinjauan literatur telah menekankan secara terperinci mengenai kajian literatur tentang aspek inovasi yang mempengaruhi prestasi perniagaan dalam kalangan usahawan AIM. Analisis statistik deskriptif telah dijalankan untuk menggambarkan responden selain analisis korelasi Pearson digunakan untuk menentukan hubungan antara pemboleh ubah. Hasil kajian menunjukkan bahawa dua daripada tiga hipotesis telah diterima. Oleh itu, penyelidik telah menyimpulkan bahawa terdapat hubungan yang signifikan antara pemboleh ubah bebas dan pemboleh ubah bergantung dan saranan untuk penyelidikan masa depan telah dibuat untuk melihat kajian ini secara terperinci.

Kata kunci: *Inovasi, prestasi perniagaan, faktor inovasi, perniagaan mikro*

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LIST OF ABBREVIATIONS

AIM	=	Amanah Ikhtiar Malaysia
MaGIC	=	Malaysian Global Innovation and Creativity
SME	=	Small and Medium Enterprise
TEKUN	=	Tabung Ekonomi Kumpulan Usaha Niaga
CEO	=	Chief Executive Officer

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Research background, relatable discussion of problem faced currently, the objective along with the research question for this thesis are being discuss in this chapter.

1.2 Background of the Study

The enterprise or micro entrepreneurs known as an engine of economic growth and had been widely recognized. In the meantime, globalization has empowered rivalry, and in this condition, development has turned into a device of little ventures for enhancing their execution and in addition for making due in the universal aggressive market (Helena, 2011). A small enterprise is outlined by the Ultan and Simon (2016) as a business that organized by ten persons or might be fewer which their yearly turnover rate might not more than €2 million. Besides, the business is characterized into homed-based, farm-based, or street-front businesses, and might be either part-time or regular businesses. There were many variations of performance between accepted theories and practices in innovation management and the way innovation is known, enforced and measured among enterprise.

In recent years, an increasing variety of studies have explored the impacts of innovation on business performance. Despite the quantity of analysis, there are many aspects that demand of further studies. . Ever since the early work of Autio et al. (2014) the ideas of ‘entrepreneurship’ and ‘innovation’ are powerfully connected. They magnificently talked concerning ‘gales of artistic destruction’ that entrepreneurs unleash by introducing new, totally different merchandise, services, and process to the marketplace, thereby difficult standing quo-preserving trade incumbents. They found that innovation equivalent to concepts; entrepreneurship and innovation are closely connected within the standard mentality. In addition, innovation is that the acceptance, generation and implementation of latest merchandise, services, processes or concepts as well as the capacity to adapt or change (Abel Duarte Alonso & Alessandro Bressan, 2016).

Besides, SMEs and Amanah Ikhtiar Malaysia (AIM) are important both to the individual and to the nation. To the individual they provide employment and increase the standard of living of each employers and employees. To the nation, they complement massive scale trendy sector enterprises, they utilize agricultural and other raw materials that would have gone to waste, they serve restricted or closed markets that warrant solely to small scale production, they mobilize resources otherwise unseen of the thought formal mobilization channels and they provide the necessary platform for take-off into large scale modern production by many indigenous Kenyans (Mbugua, Agnes & Ondadu 2014). Associating entrepreneurship with innovation, several nations, regions, states, and universities have adopted policies to stimulate innovation by entrepreneurial corporations, within the hope of facilitating economic process (Autio et al. 2014).

Traditionally, micro and small enterprise are unnoted in innovation studies (Abel Duarte Alonso & Alessandro Bressan, 2016). However, the big corporations are often the focus of the strategic corporate responsibility debate and research (Minna & Maria, 2013) the thought of innovative responsibility is especially interesting in the context of small and medium-sized enterprises (SMEs) for a number of different reasons. Due to their flexibility and adaptability, SMEs are more agile innovators than their larger counterparts (Minna & Maria, 2013). In this study, researcher is focusing on micro and small firm innovation in AIM Malacca.

1.3 Innovativeness Overview

In this competitive age, companies have to find a better strategy to compete with each other to sustain in businesses. Schenkl et al (2014) suggested an effective approach to ensure competitiveness is by developing innovative products. They define innovativeness as a strong competitive advantage that can enables companies to gain new market share. The strategy towards more innovative market offers is to combine products with services.

In addition, Thompson (cited in Schenkl et al. 2014) has defines the innovation as the generation, acceptance and implementation of new ideas, processes, products or services while Adam et al. (cited in Schenkl et al. 2014) describe the innovation is the successful exploitation of new ideas. Based on the above definitions, the researcher sum up that innovation is proposed to refer products, processes and services and to be characterized into novelty, usefulness, and market success.

Discussing of portfolio management is important such as systems, structures, multidisciplinary approaches, flexibility, creativity and innovation (Schenkl et al. 2014). They have discussed on sensible and practical for companies with enlightened management, skilled staff, organizational, and so on. In order to practicing innovation in company, there are several barriers that need to overcome. These include:

- Limited time/capacity;
- An operational focus with short time horizons;
- The absence of a consultative management style/structure;
- A lack of suitably qualified personnel;
- Limited of finance due to highly cost of innovation;
- Inadequate ICT infrastructure;
- Fear of partnerships due to possible exploitation;
- The presence of dominant competitors (expertise)
- Inadequate information on issues such as market requirements and opportunities, potential innovation benefits.

The word innovation has essentially lost its meaning. Larry et al. (2013) often confuse the outcome and the process. They have showed definitions of innovation for understanding and what innovators actually do.

i. Innovation Is not Invention

Innovation requires many other things including a deep understanding of whether there are needs or desire the invention. It shows us to work with other partners and it will pay for itself over time.

ii. Innovations Have to Earn Their Keep

Innovations must have return value to the company or enterprise. There are two criteria in defining innovation which are it must be able to sustain itself and return its weighted cost of capital.

iii. Very Little Is Truly New in Innovation

Innovation does not have to be new to the world but only to a market or industry. Usually, it comes from existing thing which have opportunity to improve it to better conditions.

iv. Think Beyond Products

Innovation is varying in aspect and should be more than products. They emphasize new ways of doing business and making money, new systems of products and services, and even new interactions and forms of engagement between the organization and customers.

1.4 Problem Statement

Pervious study has shown that innovation capability has positive effects on performance measurement. Saunila and Ukko (2013) have suggested that to focus on the event of recent ways and practices for measure the problem involving innovation capability to contribute firm success. The entrepreneurs or managers of micro and small medium enterprises are mostly alert to the importance of creative thinking and

innovation, thus Katerina, Ioannis, and Eugenia (2010) believing that these are absolutely related to each other and interact in the development of their business. Yildiza, Basturk, and Boz (2014) additionally have found that the innovativeness, transformational leadership and transactional leadership have higher effects on business performance, severally. Every year the government has spent a large amount of money for entrepreneur programs to achieve the objectives to support the business activities of micro and SMEs. The government spent RM4.9 billion in 2007 and RM3 billion in the next year respectively in the form of training and financial management programs among others. In addition from Malaysia 2018 Budget, government has announced to allocated RM200 million to microcredit facility Amanah Ikhtiar Malaysia (AIM) and half of billion Ringgit Malaysia to Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN) (Najib Razak, 2017).

However, the study conducted by Kamunge, Njeru, and Tirimba (2014) has shown that many problems faced to SMEs which as a result, they cannot perform better and fail to grow. In addition, there is a high morbidity rate of SMEs within the first two years. Frosmann and Temel (2011) also have reported that the less vulnerable enterprise has been non-innovators and innovators characterized by the high diversity of developed innovation. Furthermore, Ulton and Simon (2016) have reported that there is a gap in studies on innovation that related to small or micro enterprise. Besides, Rowley (cited in Ulton and Simon 2016) found that the needs more work to be done in the area of innovation types. Abdul Rahim (2017) the managing director and CEO of TEKUN Nasional points out that about 30% from 170,000 micro borrowers in Malaysia have failed to make repayment of their loans since this agency was formed in 1989 and CEO of AIM said there are RM350 000 of arrears from the borrower due to the problems in their business performance and also their businesses are not viable apart from making losses (Zubir Harun, 2017)

The behavior or attitude, poor business performance and financial issues were might be the factors to the performance that contributed to the poor collection and poor bottom line analysis. Studies also found that more than 90% of new start-up businesses have failed in five years of their operations. Therefore it is important to conduct a research on innovativeness that can improve business performance in Amanah Ikhtiar Malaysia members. Based on the discussion and knowledge gap, it is

found that there is need to carry out a study on the understanding of innovativeness among entrepreneurs perception and also investigate the factors or elements that influence the adoption of type of innovation in business.

1.5 Research Questions

This section shows the problems or issues that need to be answer which is related to research topic. Therefore, researcher proposes an innovation including management and processes to micro entrepreneurs under AIM's organization as a solution to the issues.

RQ1: What are the perceptions levels of innovativeness among Amanah Ikhtiar Malaysia members?

RQ2: What are the factors or elements that affect level of innovativeness and business performance among Amanah Ikhtiar Malaysia members?

RQ3: Which are the innovation that has been done by Amanah Ikhtiar Malaysia members?

1.6 Research Objectives

This section is about the aim of the study. Researcher aims to look at the innovativeness among micro entrepreneur AIM in their business and focus on the following objectives:

RO1: To determine the perceptions levels of innovativeness among Amanah Ikhtiar Malaysia members?

RO2: To describe the factors or elements that affect level of innovativeness and business performance among Amanah Ikhtiar Malaysia members?

RO3: To identify the innovation that has been done by Amanah Ikhtiar Malaysia members in their business?

1.7 Scope

This study is focused on innovativeness that improves business performance by micro entrepreneur. The research is conducted at AIM members in Malacca because of the opportunities to help micro entrepreneur in decision making to improve their business by providing some solutions. Currently, AIM in Malacca has the number of members to 4000 enterprises which are separately into three sub located at Alor Gajah, Melaka Tengah, and Jasin.

Thus, the objective of this research is to find out the innovativeness that AIM has been done to improve their business. The research will narrowly focus at Melaka Tengah which is urban area due to their types of businesses. Precisely, the result of this study can provide the solutions to the problems faced by the members of AIM in Malacca.

1.8 Significant of Study

The significant of study is to emphasize the importance of micro entrepreneur training regarding creativity and innovation. They are become increasingly important in terms of employment, wealth creation, and development of innovation besides the study is to show the several factors or elements that will affect performance to increases capital and gain profit. This study will reviews on innovativeness that improve business performance and the factors that influenced micro entrepreneurs to adopt and practice the innovation in their business.

Every year, government has allocated funds to microcredit facility such as TEKUN and AIM where they are responsible to manage the funds to wealth creation by helping people to start the business for both individual and nation. This is the time where the AIM's member needs to pay back to government which is show the good business performance with highly investment return to prove that they are using the funds efficiently.

1.8.1 Flow of Study

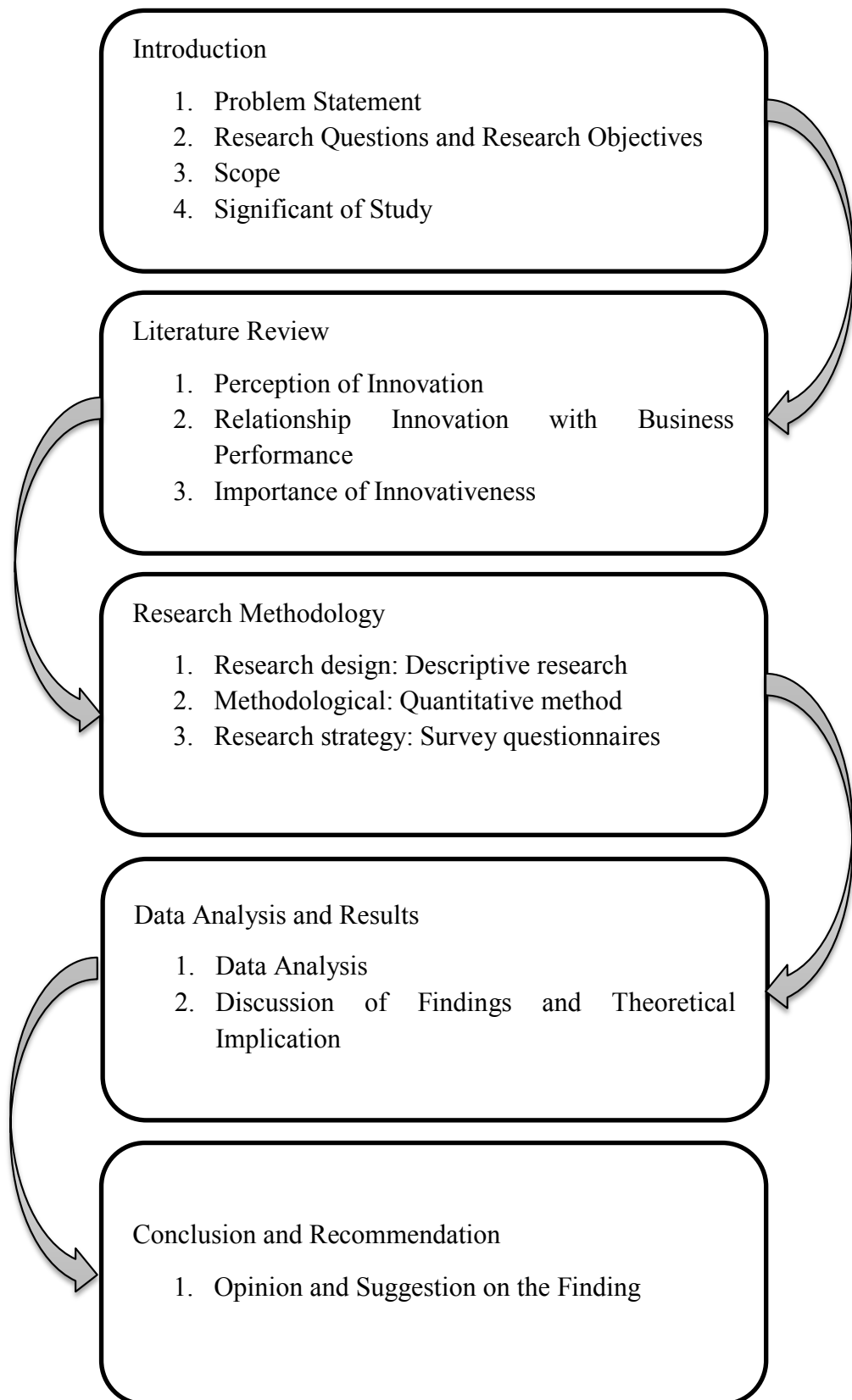


Figure 1.1: Flow of Study