EMPLOYEE PERCEPTION ON FACTORS OF INNOVATION CAPABILITY THAT INFLUENCE SME PERFORMANCE: A STUDY OF SME IN MELAKA

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DEDICATION

This research paper is dedicated to my beloved families who have been my constant source of inspiration. They have given me the drive and discipline to tackle any task with enthusiasm and determination. Without their love and support this project would not have been made possible.

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ABSTRACT

This research is a study on innovation capability that influences the SME performance. The scope of this research is at the SME located in Melaka. Fundamentally, the researcher defines on the existing of innovation on SME in Melaka. Researcher is investigating factors of innovation capability that influence SME performance which are leadership factor, culture factor and employee development factor. Researcher also identifies the relationship between the relationship between factors of innovation capabilities and performance improvement in SME. The performance that will be investigated is SME performance. Next, the method use in this research is quantitative method. Researcher make survey by distributes 100 questionnaire to employee of SME in Melaka. The respondent for this distribution is involving a number of respondent that being calculated using non sampling method. Several analyses that involved are descriptive analysis, reliability analysis, Pearson's correlation analysis and multiple regression analysis. The result for objective 1, have been shown that there are 73% of SME Company is dedicated to innovation capability and most of them are in technological innovation. Second objective result is in multiple regression analysis of each question proves that leadership, culture and employee development factors are the factor of innovation capability. Pearson's correlation is use to answer objective 3, the result shows that there were positive relationship between independent variables and dependent variables which is growth performance. The entire hypothesis is accepted. The recommendation that researcher can recommend to future researcher is future researcher need to provide extra information about innovation capability in SME. Next, researcher recommend to future researcher to broad the location and area of data collection. Last, researcher recommend to future researcher to make a research on all type of SME industry.

ABSTRAK

Kajian ini merupakan kajian keupayaan inovasi yang mempengaruhi prestasi PKS. Skop kajian ini adalah di SME yang terletak di Melaka. Secara asasnya, penyelidik menentukan tentang inovasi yang ada pada SME di Melaka. Penyelidik sedang menyiasat faktor keupayaan inovasi yang mempengaruhi prestasi PKS yang merupakan faktor kepimpinan, faktor budaya dan faktor pembangunan pekerja. Penyelidik juga mengenal pasti hubungan antara hubungan antara faktor keupayaan inovasi dan peningkatan prestasi dalam PKS. Prestasi yang akan disiasat adalah prestasi PKS. Seterusnya, kaedah yang digunakan dalam kajian ini adalah kaedah kuantitatif. Penyelidik membuat tinjauan dengan menyebarkan 100 soal selidik kepada pekerja SME di Melaka. Responden untuk taburan ini melibatkan sejumlah responden yang dikira menggunakan kaedah bukan sampel. Beberapa analisis yang terlibat adalah analisis deskriptif, analisis kebolehpercayaan, analisis korelasi Pearson dan analisis regresi berganda. Hasilnya untuk objektif 1, telah ditunjukkan bahwa terdapat 73% Perusahaan SME yang didedikasikan untuk keupayaan inovasi dan kebanyakannya berada dalam inovasi teknologi. Hasil objektif kedua adalah dalam analisis regresi berganda setiap soalan membuktikan bahawa kepemimpinan, kebudayaan dan faktor pembangunan pekerja adalah faktor keupayaan inovasi. Hubungan korelasi Pearson digunakan untuk menjawab objektif 3, hasilnya menunjukkan terdapat hubungan positif antara pembolehubah bebas dan pemboleh ubah bergantung yang merupakan prestasi pertumbuhan. Seluruh hipotesis diterima. Cadangan bahawa penyelidik boleh mengesyorkan kepada penyelidik masa depan adalah penyelidik masa depan perlu memberikan maklumat tambahan mengenai keupayaan inovasi dalam PKS. Seterusnya, penyelidik mencadangkan kepada penyelidik masa depan untuk meluaskan lokasi dan kawasan pengumpulan data. Akhir sekali, penyelidik mengesyorkan kepada penyelidik masa depan untuk membuat penyelidikan ke atas semua jenis industri PKS.

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

Innovations play an essential role in today's society's everyday activities, covering all areas of our lives. Because they can create a new room for possible development and future growth, inventions have become an important aspect of every business activity (Ehrenberger, Koudelková and Strielkowski, 2015). Innovation has become a key issue for businesses, organisations and governments at different levels, and its significance has driven researchers to recognize their different driving forces. The academic literature provides a wealth of evidence suggesting a positive relationship between innovation and firm success in the manufacturing sector (Psomas, 2015). Innovation has become a key requirement, regardless of the size and sector of the product. Small and medium-sized enterprises (SMEs) faced the need to build profitability through effective and efficient innovation with generally limited resources and skills (Kim, Park and Paik, 2017).

Thanks to their creative capacities, SMEs typically make a valuable economic and social contribution. SMEs in sectors such as IT and biotechnology (BT) depended on innovation to improve their efficiency and competitiveness. Setting up and improving innovation potential has thus emerged as a major challenge for SMEs (Small and Medium Business Administration, 2015). Under increasingly volatile market conditions, the company's ability to innovate is the most crucial factor for competitive advantage. Innovation ability drives companies to continually create innovations to adapt to the

changing market environment, embedding them with all the techniques, processes and frameworks that enable an organization's innovation (Gloet and Samson, 2016). SMEs may contribute to innovation in technology and economic growth. SMEs play a key role in promoting and sustaining regional economic growth and development focused on innovation (Choi and Lim, 2017).

SMEs typically have a high innovation potential, which can contribute to innovation styles other than commercial products. Innovation capacity is hard to specify directly, similar to intangibles in general, but it can be specified by defining closely related aspects. These innovation capacity aspects are also inputs from innovation activity (Saunila and Ukko, 2014). Nonetheless, innovation capacity is one of the most critical factors that allow SMEs to achieve a high level of competitiveness on both domestic and international markets (Minna Saunila, 2016). The importance of SMEs to the Malaysian economy's growth and development cannot be ignored and has become an important aspect of Malaysia's economic growth. The importance of SMEs in economic development, poverty reduction, job growth, output, technological innovation, and social and standard lifting is proven and recognized globally in both emerging and developed economies (Eniola and Entebang, 2015).

SMEs play an important role in the economic development of Malaysia. SMEs play an important role in contributing to the prosperity of large and multinational corporations (MNCs) through their entrepreneurial creativity and innovation (Kayadibi, Polat and Fidan, 2013) in addition to creating employment. SMEs as companies in a dynamic environment are a must, then creativity. High-tech industry, pace of research and development, concentration of markets and export volume are increasing further innovation activities in the high-tech industry. Innovation practices, low-tech sectors, have a strong and significant impact on productivity. Innovation is a key aspect that leads to competitive advantage (Ismanu and Kusmintarti, 2017).

1.2 SME IN MALAYSIA

Considering that many developments in the economy have taken place since 2005, such as price inflation, structural changes and shifts in market patterns, a review of the concept was conducted in 2013 and a new definition of SMEs was endorsed at the 14th NSDC meeting in July 2013. The concept encompasses all sectors (SME Corporation Malaysia, 2019), namely retail, manufacturing, agriculture, construction and mining and quarrying. Small and medium-sized enterprises (SMEs) may have distinct distinguishing characteristics for larger enterprises. Through specialized management with little devolution of authority, SMEs vary from larger companies. We have resource constraints in terms of management, manpower and finance, and are usually dependent on a small number of customers and operate in restricted markets. On the other hand, SMEs may also have simple, scalable systems, high potential for creativity, reactive mindset, and informal, competitive approaches (Saunila, 2016).

Malaysian SMEs are concentrated in the sectors of textiles and clothes, food and beverages, metals and services, and wood products. Many manufacturing firms are based in the central parts of Malaysia and around the major industrial regions of the country. Malaysian SMEs are engaged in a variety of industries. It is important to identify or categorize the SMEs in Malaysia in order to determine the importance of SMEs in the country, particularly in terms of their economic contribution. SME Corporation Malaysia (SME Corp. Malaysia) is the central coordinating agency (CCA) under the Ministry of Entrepreneur Development Malaysia (MED) overseeing the implementation of small and medium-sized enterprise (SME) development programs across all relevant ministries and agencies. It serves as the central reference point for analysis and dissemination of data on SMEs and entrepreneurs, as well as offering business consulting services to SMEs and entrepreneurs across the world. Malaysia is also the Secretariat of the National Council for SME Development (NSDC), headed by Malaysia's Prime Minister (SME Corporation Malaysia, 2019).

1.3 PROBLEM STATEMENT

Several SMEs face enormous obstacles in their efforts to pursue technological innovation, including financial constraints, knowledge shortages, poor inter-company relationships, and regulatory burdens (Choi and Lim, 2017). Most SMEs have plunged into an unparalleled situation since the financial crisis began in 2007 (Chen, Zhu and Zhang, 2017). SMEs have found it difficult to gain a foothold in the market in the increasingly fierce competition by relying on the manufacture of products designed by other firms. SMEs are facing increasing global competition in today's market, rapid changes in customer demand, and ever-changing technologies. Innovative ideas along with efficiency and effectiveness of implementing these ideas are required for a successful organization. A good creative outcome will benefit from these innovative ideas and successful implementation (Hasliza, Noor Hazlina, T. Ramayah, Haniruzila Hanifah, Seyedeh Khadijeh Taghizadeh and Marini Nurbanum, 2015).

On the one side, it requires resources that can be challenging for a small and medium-sized company. It is well known that because of credit constraints, SMEs face tight financial resource restrictions (Nixson and Cook, 2015). Innovation has therefore become essential to the survival and growth of SMEs (Chen, Zhu and Zhang, 2017). SMEs face major challenges as several studies identify the structural weaknesses of small and medium-sized enterprises that undermine their potential for innovation and profitability, thereby undermining their survival (Vanegas, 2018). Increasing market transparency, increasing technological change rate, loose management of information assets and human capital, poor skills of business owners and employees, drawbacks of localization and infrastructure, which make it difficult for SMEs to succeed in highly competitive markets (Morales, Loaiza and Vanegas, 2019).

1.4 RESEARCH QUESTION

Referring to problem statement, researcher creates three research questions. The research question of this research are :

1. What are the existing innovation capabilities in SMEs?
2. What are the factors that influence of innovation capabilities in SMEs?
3. How the factors of innovation capabilities can relate with the performance improvement in SMEs?

1.5 RESEARCH OBJECTIVES

The objectives of this research are :

1. To investigate the existing innovation capabilities in SMEs.
2. To study the factors that influence innovation capabilities in SMEs.
3. To examine the relationship between factors of innovation capabilities and performance improvement in SMEs.

1.6 SCOPE AND LIMITATION OF STUDY

The researcher focuses only on the factors of potential for innovation in Melaka SMEs. Researchers are therefore not discussing and researching other problems such as obstacles and barriers to innovation potential in SMEs. This is because there is insufficient time and knowledge to complete this report. In addition, the factors that have been mentioned are the latest factors that other researchers around the world have been investigating.

1.7 SIGNIFICANT OF STUDY

To boost the SME's efficiency, innovation is really necessary. As Malaysian SME's success is a major change in the country of the economy. Capacity for creativity is the factor that affects results. Malaysian small and medium-sized enterprises are still in the rising stage, with factors influencing innovation potential and the rapid growth of innovation. Therefore, the researcher also attaches importance to the relationship between innovation capacity factors and Melaka's performance enhancement of SMEs.

1.8 SUMMARY

As a conclusion, researchers are developing the background analysis of innovation and innovation capability in SMEs around the world in this chapter. Researcher also addresses the condition of SMEs in Malaysia with respect to the website of the SME Corporation. First, this report includes problem statements that SMEs are facing challenges in their attempts to implement technological innovation. Yet creativity has also become essential to the survival yet growth of SMEs. Questions for study are divided into three. The study objective is benefit from the problem of analysis. Research reach and limitation is addressing the limit of this study that is based only on the Melaka SME. And lastly, significant of study discuss on the important of this research that influence Malaysia's economy.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

Innovation can be defined, according to (Schumpeter, 1997), as applying new ideas to the product, process or any other aspects of the company's activities. Innovation is a specific and multi-dimensional term that applies to all scientific, technical, organizational, financial and commercial activities leading to, or intended to lead to, the introduction of new or improved products or services (OECD, 1997). Innovation has become a key issue for businesses, organizations and governments at different levels, and its significance has driven researchers to recognize their different driving forces (Becheikh, 2006). Innovation is characterized as a mandatory innovation component that includes the new or improved product or method, a new marketing strategy, and new business practices organizational behavior (Hasan Askoy, 2017). Innovation means making something modern and industrial developments include technical development, design, distribution, and management (Wang, 2019). Innovation is as a process, product, and organization of new ideas, according to (Hult, Hurley, and Knight, 2004).

(Schumpeter, 1997) stated that innovation types such as introducing a new or qualitative change in an existing product, processing innovation new to an industry, opening up a new market, developing new sources of supply for raw materials or other inputs, and changing the organization of industry. According to (Jorge Lopez, 2015), technology and the market provide four types of innovation that are incremental innovation, disruptive innovation, innovation in architecture, and radical innovation. The most common form of innovation is incremental innovation. This uses existing technologies and improves demand in the existing market for consumer services and improvements in design. Disruptive innovation, also known as disruptive innovation, is

the introduction of new technology or processes to the current market of your business. Architectural creativity simply takes and implements the principles, expertise and overall knowledge in a different marketplace. This innovation is amazing as long as the new market is receptive to growing new customers. Radical innovation is an invention that is considered. New industries are born and revolutionary technology is created.

2.2 EMPLOYEE PERCEPTION

Employee perception is created in the workplace through organizational positions, leadership styles, and communication styles, and it is therefore very important that the company should shape the correct perception in the minds of its employees. Communication is the key to employee growth. Communication is a key aspect. Anything we do will be pointless if it is not well conveyed to the target audience. With regard to the perception of employees, it is crucial for companies to ensure aggressive communication to their employees about their goals, mission and vision. Finally, it is necessary to engage employees. It is important to have not only the right HR practices in the company but the right employee expectations of those practices in order to achieve the desired organizational objectives. Workers would be more involved if they noticed that the HR policies were more driven by the organization's concern for high-quality service and employee well-being than by a desire to cut costs and manipulate workers.

2.3 INNOVATION CAPABILITY

Innovation capacity, according to (Lawson and Samson, 2001), is a theoretical framework to describe the actions that can be taken to improve the success of innovation activities. According to (Forsman, 2011), therefore, innovation capacity is defined as the continuous development of skills and resources enabling a company to explore and exploit new opportunities to introduce new products and meet market needs. According to (Olsson, 2010) concluded that innovation capability is the most critical for businesses as it enables them to respond effectively and efficiently to both market needs and business environment fluctuations. Since innovation capacity is a special asset that enables any company to generate new ideas, develop new products, improve operational processes, and take risks, it is essential for companies to pursue successful innovation (Guann and Ma, 2003).

In this analysis, innovation capacity is described as an internal capacity to describe the determinants that affect the ability of an organization to continually achieve innovations and add value to the organization and its stakeholders. Innovation potential may not be a unitary set of attributes, and the attributes are interrelated but not independent of each other (Francis and Bessant, 2005). Different types of innovation may require distinctive approaches (Francis and Bessant, 2005), or different types of organizations may use different determinants to develop capacity for innovation (Saunila and Ukko, 2014). Therefore, the potential for creativity varies from company to company and is dictated by several factors. Innovation capability itself is not a concept that can be independently defined. The capacity consists of improving the company's procedures and processes. These processes are a key mechanism to stimulate measure and strengthen innovation (Lawson and Samson, 2001).

2.4 INNOVATION CAPABILITY AND SME PERFORMANCE

The ability to innovate is a core determinant of firm success. It is difficult to expect continuous and company-wide innovation and successful firm results without building innovation capacity. Since SMEs are especially restricted in their internal resources and external responsiveness, they need to strengthen their capacity for innovation in order to make productive use of innovation assets and broaden international cooperation (Kim, Park and Paik, 2017). Innovation skills have a positive effect on the efficiency of SMEs, according to (Rosenbusch, Brinckmann and Bausch, 2009). The implementation of an innovation orientation has more positive effects on firm results than the result of the innovation process. The effects of the innovation cycle lead to increased production of SMEs. Innovation's overall impact on a SME's output is an aggregate effect arising from both positive and negative mediating effects that are further moderated by contextual factors. The innovation-to-SME performance relationship is positive (Rosenbusch, Brinckmann and Bausch, 2009). There are two performances that will be addressed in this study, which are production.

Researchers usually assess the ability of a company based on its growth (Dobbs and Hamilton, 2006). Empirical research indicates that if there is a constant supply of finance, there is a positive relationship between innovation and company growth (Hyytinen and Toivanen, 2003). The overall firm efficiency would be enhanced in the presence of innovation (Rosli and Sidek, 2013). This shows that innovation is essential to the organization's growth in terms of revenue, market penetration, competitiveness and organizational sustainability, especially for small and medium-sized enterprises. (Coad and Rao, 2008) noted that for selected fast-growing companies, creativity is key. If any innovation conducted is successful, the share of innovative new products is likely to increase in the company's total revenue, and if this happens, businesses will be able to achieve growth in their sales turnover, investment and jobs, all resulting in company size growth.

2.5 INNOVATION CAPABILITIES FACTORS

Innovation capacity is defined as the driving force behind innovation, such as factors affecting the ability of an organization to handle innovation. The factors influencing performance of SMEs are leadership, culture, and employee development, according to the previous literature.

2.5.1 Leadership

Leadership culture refers to the organization's overall atmosphere that promotes and motivates creativity and innovation-friendly leadership. It is important for an organization to be able to lead, direct, and support the creation and maintenance of innovation behaviors (Bessant, 2003). In order to make innovation a key capability of small and medium-sized enterprises, it is important to have leadership in top management and employee leadership skills that promote innovation, and an external network that compensates for the general lack of SMEs ' capital and efficiency (Kim, Park and Paik, 2017).

2.5.1.1 Top Management leadership

Previous studies have shown that top management is closely linked to firm innovation (Makri and Scandura, 2010). To order to promote innovation (Elenkov and Manev, 2005), top management has a strong influence on innovation practices, organizing the structure, processes and culture of the organization. Innovative top management has supported innovation in SMEs by identifying new areas of technology applications, developing human capital to improve internal knowledge, and networking with external organizations to access resources that are internally lacking (Vaccaro, 2012). (McAdam, 2010) explored the significance of innovation leadership in the development and implementation of SME innovation. (McGuirk, 2015) empirically demonstrated that, due to individual readiness for change, creative managers can promote innovation in small businesses. Nevertheless, the relationship between top management leadership and innovation potential was discussed empirically only by a few studies (Makri and Scandura, 2010).

2.5.1.2 Leadership Skills

(Martensen, 2007) suggest that in order to achieve innovation excellence, innovation and the ability of leaders to guide and direct employees, companies should first be improved. Leadership is observed today as an ability to direct the energy of employees in the right direction rather than giving orders and instructions (Lampikoski and Emden, 1999). Participatory leadership increases the trust, engagement and appreciation of managers among employees. Staffs are also more driven to perform their duties (Yukl, 1998). (Skarzynski and Gibson, 2008) emphasize that a common dream of innovation should be shared between leaders and firms. It is important for a company to be able to lead, steer, and support the creation and maintenance of innovation behaviors (Bessant, 2003). Managers should therefore invest time in the the incentives for workers to engage in growth activities (Lampikoski and Emden, 1999), as well as strike a balance that encourages staff to act on good ideas (Dobni, 2008). Leadership is seen today as an ability to direct the energy of the workers in the right direction rather than giving orders and directions (Lampikoski and Emden, 1999).

2.5.2 Culture

Culture has been correlated with different innovation factors (Jones and Davis, 2000), such as disparities in levels of creativity and innovation (Shane, 1993). Not only can cultural differences account for cross-national innovation variations, but they can also impact the success relationship of innovation because cultural differences affect innovation input, innovation process, and innovation marketing.

2.5.2.1 Innovation Culture

The indispensable effect of an innovative culture on SMEs ' innovative success was addressed in previous studies (Hasan Aksoy, 2017). High resistance to change and highly creative practices establish a versatile inventive community in SMEs. Innovation culture helps small and medium-sized companies to identify new approaches to create new markets when implementing new methods of selling a product that has value to consumers. Therefore, SMEs will achieve a strategic advantage when it comes to enhancing product efficiency and marketing strategies and achieving optimal performance due to the strength of their innovation culture. An innovative culture encourages workers to be imaginative and take risks and develop new ideas and opportunities required for the process of product innovation. The literature provides a strong link with regard for the relationship between culture of creativity and marketing. As such, it can be said that in an innovative culture setting, SMEs make better use of marketing innovation. The invention is supposed to have an important relationship between innovative cultures (Hasan Aksoy, 2017)

2.5.2.2 Individualism Culture

Individuals in an individualistic culture are motivated by personal ambitions, whereas people in collectivist cultures tend to subordinate their personal goals to the goals of a group they belong to. Individualism rates assess activities such as social interactions and psychological needs such as incentive for success (Hofstede, 1980). These are of great importance for systems of entrepreneurship and growth (McClelland, 1987). Individualism may influence the relationship between innovation and SME performance for several reasons. Therefore, the influence of individualism of the home

culture can expected to be particularly strong in SMEs. Individualism at the organizational level can be beneficial, but also detrimental for the success of innovation activities in SMEs. SMEs need to rely on teamwork which might be more difficult to accomplish in cultures characterized by high levels of individualism.

2.5.3 Employee Development

Employee development aspect includes employee skills and knowledge that play an important role in the ability to innovate. This includes the use of knowledge and employee skills improvement. A learning and development company requires a complete understanding of its environment, including clients, rivals, and emerging technology (Keskin, 2006). (Tidd, 2005), notes that a creative company requires the ongoing and prolonged growth of individuals.

2.5.3.1 Employees' Skills

The individual innovation ability and behavior of employees is needed to form the overall innovation capacity of the company that forms the dimension of employee operation. The root of innovation, according to (Hotho and Champion, 2011), lies in people's creativity and ability to innovate. People with creativity and intrinsic motivation as well as skills for their work are going to be in favor of creating a working environment that supports innovation creation. A study of (Dixit and Nanda, 2011) shows that employee motivation in a creative organization is an important factor. Creative thinking involves the individual having new perspectives on issues, being willing to take risks, and having tolerance for ambiguity (Amabile, 1997). According to (Calantone, 2002) for effective innovation, it may be necessary to challenge established norms, practices, and beliefs. The behavior and actions of employees need to be adjusted accordingly as market conditions alter (Dobni, 2008).

2.5.3.2 Employees Innovativeness

According to (Kleysen and Street, 2001), individual innovative behavior requires a good correlation of five dimensions that is exploration of opportunity, generative, formative investigation, championing, and application. According to (Calantone, Cavusgil, and Zhao, 2002), it may be appropriate to question successful progress in order to promote established norms, traditions, and beliefs. When market conditions alter, the behavior and actions of employees need to be adjusted accordingly (Dobni, 2008). The study found that opportunities for ambitious workers greatly influence SME development (Ngugi, Mcorege and Muiru, 2013). These findings are in line with those of (Hirschey and Weygandt, 1985) who found that a creative and innovative employee who is motivated to develop new products and new markets is strongly associated with SME growth. (Gary, 1993) noted that recognition through employee incentives is a crucial component for building a sustained and thriving enterprise innovation that is a prerequisite for SME growth where compensation is tied to the creativity of employees associated with the emergence of new markets and new products.

2.6 RELATIONSHIP BETWEEN INNOVATION CAPABILITY AND SMES PERFORMANCE

2.6.1 Research Framework

The purpose of this research is to explore the factors that influence the performance of SMEs in terms of innovation capacity. The structure is a kind of intermediate definition that has the ability to identify all pieces. A structure helps illuminate the path to be taken to a certain level. The model structure includes the dependent variables of leadership, community, and employee growth, as well as two forms of dependent variables of SME Efficiency. The study structure shown in the following figure:

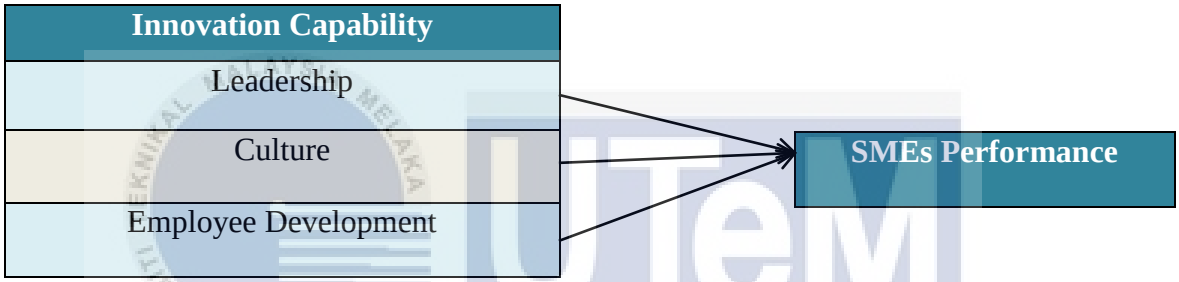

Figure 2.1 : Research Framework

2.7 HYPOTHESIS

The respective relationship of variables is identified and after identification the hypothesis is established and tested. The analysis will start on the basis of the hypothesis for the research project. Referring to the theoretical context, the researcher formed the hypothesis as follows: the independent and dependent variables.

1. H1: Leadership factors positively influence SME performance
   H0: Leadership factors negatively influence SME performance

2. H1: Culture factors positively influence SME performance
   H0: Culture factors negatively influence SME performance

3. H1: Employee development factors positively influence SME performance
   H0: Employee development factors negatively influence SME performance

2.8 SUMMARY

As a conclusion, in this chapter researcher discuss about the definition and types of innovation. Researcher also defines the innovation capability and its influence in SME performance. In this part, there are two performance that been discuss which is SME performance. It is the dependent variables. While, independent variables listed are the factors of innovation capabilities. There are three factors that have been discussed which is leadership, culture and employee development. Leadership is including the top management leadership and leadership skills. Culture is all about the innovation culture and individualism culture. Lastly, employee development is about the employee's skill and employee's innovativeness. Next, researcher put the research framework to ease reader to relate the relationship between factors of innovation capabilities and SME performance. Based on the framework, researcher generates several hypotheses.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Generally speaking, this section will clarify the research design using one research approach to ensure consistency within the project. The research methodological choice is to be consistent with the research progress as the consistency is important to determine the good outcome.

3.2 RESEARCH DESIGN

Research design is the framework for data collection inquiry to respond to research question and research goal encounter. On the flow of the research question, this framework is very important and the research goals are answered. Exploratory research, descriptive research, and explanatory analysis are three research types. In this study, descriptive research will choose the aim of producing an accurate individual, case, and situation representation.

3.2.1 Descriptive Research Design

Approach for descriptive studies is the essence of the researcher's choice of research design. It does not explain the cause, but this analysis usually involves analyzing and explaining a subject's actions without having any influence on it. The five basic' 6W1H' question which is what, who, why, where, when, what and how is answered by a good descriptive study purpose. There are two main types of groups for

individual and population descriptive study. This research identified the innovation capability factors that influence Melaka's SME performance enhancement. A descriptive research method was used to evaluate the relationship between the independent variables of leadership, culture and employee growth and dependent variables like SME efficiency. Work on quantitative approach and survey technique will be performed. According to (Saunders, Lewis, and Thornhill, 2012), the survey approach is usually associated with the prominent and traditional business and management research method being the most widely used to address "what," "who," "when," "how much" and "how many" questions.

3.2.2 Questionnaires

The questionnaire is use as to be distributed to a number of respondents from SME in Melaka. The total number of SME in Melaka is 300. So, 100 respondents will be selected randomly. Questionnaires are a set of printed question with a choice answer, device for the purpose of the survey or statistical study. The focus group of respondent is employees of SME in Melaka. The questionnaires will be distributed around June to October 2019. The respondents must answer each Likert Scale-based question. Analysis of data will be carried out through the Statistical Package for Social Sciences (SPSS), a well-known statistical technique for estimating the relationship between variables. The result of the questionnaire will be generated in excellent format and then translated into SPSS statistical software. The survey will be divided into three parts, Section A, Section B and Section C.

3.3 METHODOLOGIES CHOICES

The methodologies selected by the researchers are quantitative methods. For this study, quantitative approach is the use of survey research strategy as an example of questionnaire distribution typically performed through the data technique. Due to the standard way of collecting data, the researcher wants to obtain the data from the respondent. It is important to make sure that the question is clearly expressed so that they can understand it in the same way.

3.3.1 Quantitative Research Methods

The quantitative method is a numerical data (numbers), and quantitative data is often used similar to any technique of data collection such as questionnaires or processes of data analysis such as graphs or statistics generating or using numerical data. The Descriptive Data Analysis consisting of average, style, average, percentages, and others. Thanks to the questionnaire, this study using the quantitative approach is accurate for data collection. The main purpose of using descriptive design is to obtain data from participants in a high degree of representatives and the case. The researcher performs this analysis using a quantitative approach that evaluated, numerically calculated and statistically analyzed the relationship between variables. As in an experimental design, it often includes control to ensure data validity.

3.4 PRIMARY DATA AND SECONDARY DATA SOURCES

There are two sources that researchers can obtain to collect data to complete a research. Those two sources are referred to as primary and secondary sources of data. Primary data is any field work that the researcher has to choose the venue. Thus secondary data is the information that the researcher collects or retrieves from previous research or theoretical written evidence from any other relevant data.

3.4.1 Primary Data Sources

Primary data is data obtained using a few techniques for research issue. Primary data is the information gathered specifically for research by the researcher, and the questionnaire is one of the techniques used to gather primary data. The researcher conducts a survey to collect data from the respondent first-hand. The survey is about the innovation potential success factor that affects SME performance enhancement. By sending the questionnaire to the respondent, the data are collected and the respondent must reply using Likert Scale. The researcher will get several patterns of data through the questionnaire. So, on this analysis, it can help researchers understand more. The topic must answer the question of research and achieve the goals of research. If the researcher visited the small and medium-sized enterprises personally, explained and persuaded the respondent about the intent of the need for participation in the study, it will give the high response rate. So, to get a high response rate, the researcher goes to the SME personally.

3.4.2 Secondary Data Sources

The researcher not only used primary data, but the researcher also used several other data information that is made up of studies relevant to the journal, papers and other reference book. The data were also gathered from the archive of blogs and directories, Google scholar, and library. For some other reason, the researcher carries out further study of data collection. Before the study is carried out, the data is collected. The data are easily obtained as they are readily available and the researcher has only to explore more with them. Such secondary data are used to endorse hypotheses related to the study of the researcher.

3.5 LOCATION OF RESEARCH

Location targeted by researcher is Malaysian SME in Melaka. Researcher chooses this state because, the state has a population that is not too large and simplifies the process of this study. Melaka is where this study is conducted. There are various SMEs in Melaka that have been known by the researchers as they have had collaboration during the assignment and subjects for the last semester. So from that, it easier for researcher finds out the data by distributing the questionnaire.

3.6 RESEARCH STRATEGY

The researcher planned to conduct the survey at employees for SME in Melaka. 100 respondents will be committed questionnaire regarding on innovation capability toward performance improvement of SME in the future. This data collection technique used in order to gain data from a related person and at the same time, this study will help SME taking the main factor of innovation capability as their priority in the future.

3.6.1 Sampling Method

Sampling method (Burns and Grove, 1993) describes a population as all process elements (individuals, artifacts and events) that meet the sample criterion for inclusion in a study. By referring to the Krejchie and Morgan list, the number of respondents is estimated.

3.6.2 Questionnaire Structure

A questionnaire was a reformulated written collection of questionnaires to which the respondent submitted their reaction, typically within rather well-defined alternatives (Sekaran, 2003). He also added that the questionnaire was an effective tool for collecting data when the researcher knows exactly what is needed and how to quantify relevant variables. At the appendix, the questionnaire is attached. The Likert scale is used in the questionnaire to measure different variables. The questionnaire is divided into three parts, Section A, Section B, and Section C. Section A deals with the demographic

profile. Section B is about the factors of innovation capabilities in SME. This section divided into three parts regarding to three factors that have been discuss in independent variables. Section C is about the relationship between the factors of innovation capability and performance of SME. This questionnaire used the Likert Scale with 5-point scale. Scale number 1 is Strongly Disagree, number 2 is Disagree, number 3 is Natural, number 4 is Agree and number 5 is Strongly Agree.

3.6.3 Pilot Testing

According to (Waite, 2002), pilot testing is characterized as a pilot project or research as an experimental, exploratory, test, preliminary, test and experiment. Epidemiology and statistical dictionaries have common descriptions of a pilot study as a small investigation scale designed to test the efficacy of large-scale methods and procedures for later use or to look for potential useful effects and connection. The researcher is testing the validity of the questionnaires using the pilot test. Plot research is conducted on a few respondents by trying it out. The aim of pilot testing is appropriate and understandable to validate the questionnaire sample. The researcher will anticipate the questions expected to be asked in the questionnaire for this study. The researcher should estimate the time taken for the survey to be completed. It will assign the survey questionnaire for 30 samples.

3.7 RELIABILITY TEST

Reliability is refers to the data collection techniques and analytic procedures consistency that produced in its finding to be repeated on other occasion. Reliability is defines as the extent to which data collection technique will generate consistence finding, comparable observations is prepared or conclusion reached by other researchers on how sense of transparency is made from raw data. In this research, researcher uses the internal technique which is Cornbach's Alpha. Cornbach's Alpha is used to check the data acquired for goodness and to describe the number between 0 and 1. Cornbach's Alpha is a reliability that shows how well the things in a collection are positively correlated to another, according to (Sekaran, 2002). The table below shows the Alpha coefficient spectrum of the Cornbach and its association power.

Table 3.1 : Cornbach's Alpha Coefficient Range

Cornbach's Alpha Coefficient Range	Strength of Association
< 0.6	Poor
0.6 to < 0.7	Moderate
0.7 to < 0.8	Good
0.8 to < 0.9	Very Good
0.9	Excellent

3.8 MULTIPLE REGRESSIONS

This research was carried out in multiple techniques of regression. The emphasis of this approach is the relationship between a dependent variable and more than one independent variable. Independent variables are the variable whose data value is predicted to be named as the dependent variable and one whose known values are used for prediction. As in the research framework, the variables are listed.

3.9 PEARSON CORRELATION COEFFICIENT

Pearson Correlation Coefficient is a metric by which data relationship validity is calculated. Correlation shows the paths, frequency and importance of the relationship between variables. The value of the correlation of Pearson is from -1.00 to 1.00. This can be shown in the following table:

Table 3.2 : Pearson Correlation Coefficient Range

Coefficient Range	Strength of Association
0 – 0.3	Weak Correlation
0.4 – 0.6	Medium Correlation
0.7 and above	Strong Correlation

3.10 TIME HORIZON

The researcher conducts this final year project during second semester of third year until first semester of forth year in degree study. This research must be complete in 9 months duration. This study is the study of a particular phenomenon at particular time and also called cross-sectional study. The first semester required, researcher need to complete the first three chapters which are chapter 1, chapter 2 and chapter 3 while for the nest semester, researcher need to continues with chapter 4 and chapter 5. Where researcher need to collect data, analyze it and complete the research project.

3.11 SUMMARY

In this chapter, researcher chooses the descriptive research design. The methodological choices are quantitative method and do a correlation. Researcher gets the primary data sources by distributed questionnaire. The location of this research is SME in Melaka. The time horizon for this research is two semesters which is 28 weeks or 7 months. The research strategy that has been chosen is survey for method of primary data collection. Then, the explanation method for this analysis is data using descriptive, correlation and Cornbach's Alpha. The data will be analyzed using SPSS and Microsoft Excel.

CHAPTER 4

DATA ANALYSIS

4.1 INTRODUCTION

Researcher will clarify the data analysis and the discussion of the results in this chapter. The results are derived from the survey-based research that used to gather data from the target respondent. Researcher defined the results of the study by using SPSS version 23.0 for each statistical test on data collection and interpretation. The analyzes concerned are analysis of reliability, descriptive analysis, analysis of correlation by Pearson and analysis of multiple regression.

4.2 RELIABILITY ANALYSIS

The aim of this approach is to ensure that respondents completely understand the purpose of answering the questionnaires and to ensure that the questionnaire does not contain errors or errors. This approach can also improve questionnaire accuracy and consistency. The pilot test for this research was performed in Melaka for 30 SME employees. As for the pilot test, Alpha from Cronbach is used to assess the pilot test's validity and reliability. Reliability analysis is the tool to determine that all items included in the pilot test questionnaire were evaluated using SPSS software to assess Cronbach's Alpha's reliability. Verifying that the data obtained is accurate for the research is important. As an acceptable result, the value of more than 0.50 is indicated.

Table 4.1 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.851	.812	21

Table 4.2.1 show the reliability result for pilot test of 30 respondents. The Cronbach's Alpha for pilot test is acceptable as the value is 0.812 which is in strength of association. Thus, the question for the pilot test is considered valid due to the accepted result which is more than 0.50.

4.3 DESCRIPTIVE ANALYSIS

In this research, 100 respondents have answered the questionnaires. In this section, researcher elaborates on the result of demographic analysis that include personal profile of respondent; gender, age, qualification and position in SME and also business background; type of business, year in business and income per month.

4.3.1 Personal profile of respondent

4.3.1.1 Gender of the respondent

Figure below shows to type of gender of respondent which is male and female.

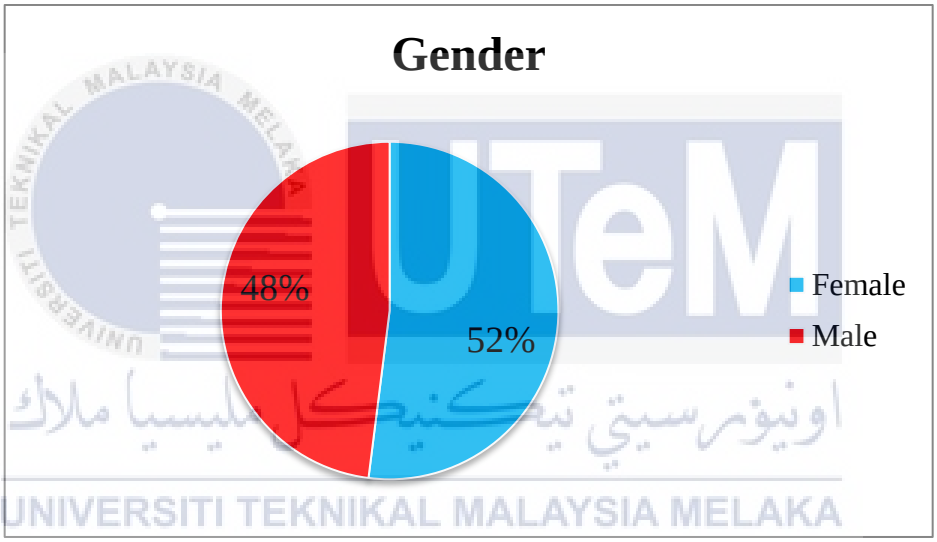

Figure 4.1 : Gender of Respondent

Figure above shows that male respondent is 48 people which including 48%. While, female respondent is 52 people which including 52%. The highest genders that respond to the questionnaire are female respondent.

4.3.1.2 Age of respondent

Researcher investigates 3 level of age which is below 25 years old, 26-40 years old and 41 years old and above. The result have been discussed below :

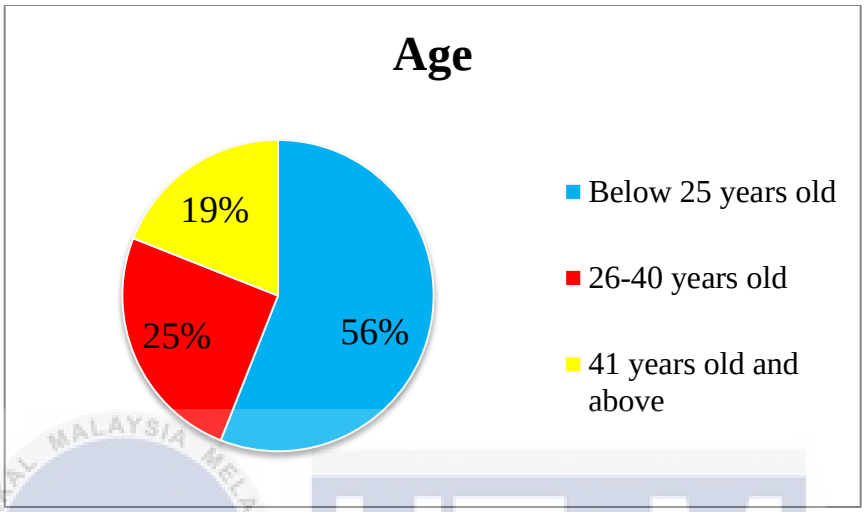

Figure 4.2 : Age of Respondent

Figure above shows that the three fragment of age of respondent. The most contributing age for this research is in the group age below 25 years old, which is 56% as it is 56 people from the total value of 100 respondents. This is followed by the respondent in the range of age 26-40 years old with contribution 25% as 25 people. Then, the least number of respondent's age is from group 41 years old and above as 19% which including 19 peoples involvement.

4.3.1.3 Qualification of respondent

The result for qualification that have been achieve by respondent is discussed below :

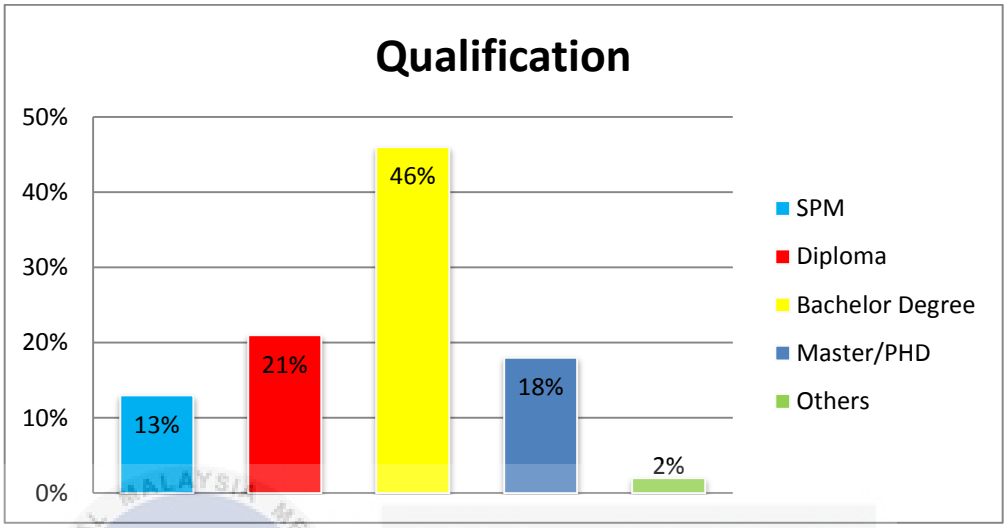

Figure 4.3 : Qualification of respondent

According to the figure above, the highest qualification is respondent from Bachelor Degree which is 46% as 46 people. It followed by Diploma qualification which is 21% as 21 people. While, Master/PHD qualification is 18% or 18 respondents. There are also 13% or 13 respondents that have SPM qualification. Lastly, the least contribution is from other qualification which only 2% from the total of respondent.

4.3.2 Background in Business

4.3.2.1 Type of Business

There is various type of business that has been done. For this research, researcher classified 5 type of business that has been done by SME. The result is shown below :

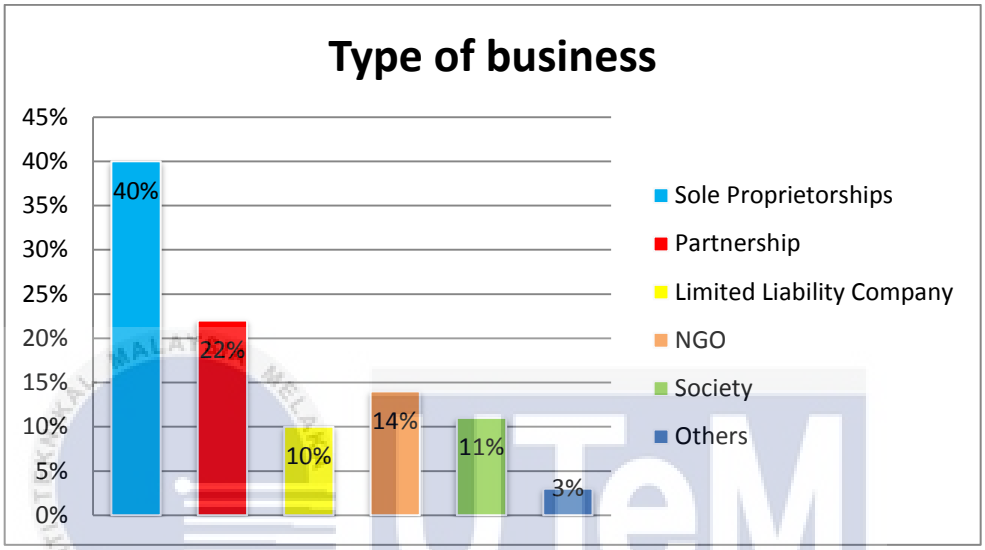

Figure 4.4 : Type of Business

As the figure above shows that the highest number is sole proprietorships business which is 40% represent 40 respondents. Second is partnerships which gain 22% or 22 respondents. Next is NGO Company which is 14% or 14 respondents. Then, 11% or 11 respondents if from society type of business. Then, 10% or 10 respondents are from Limited Liability Company. Lastly, the least contribution is from other type of business which is 3% or only 3 respondents out of 100.

4.3.2.2 Year in business

Figure above shows the year that SME involve in business.

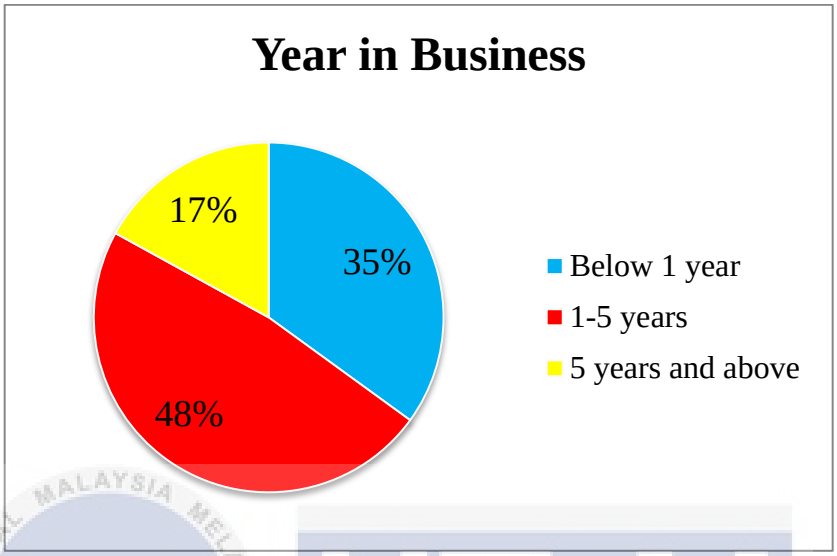

Figure 4.5 : Year in Business

The highest number of years is 1-5 years which the respondent is 48% or 48 people. Second is below 1 year which is 35% or 35 respondents in below 1 year. And lastly, the lowest year that SME involve is 5 years and above which is 17% or 17 respondents.

4.3.2.3 Income per month

The figure above shows that income that SME gain per month.

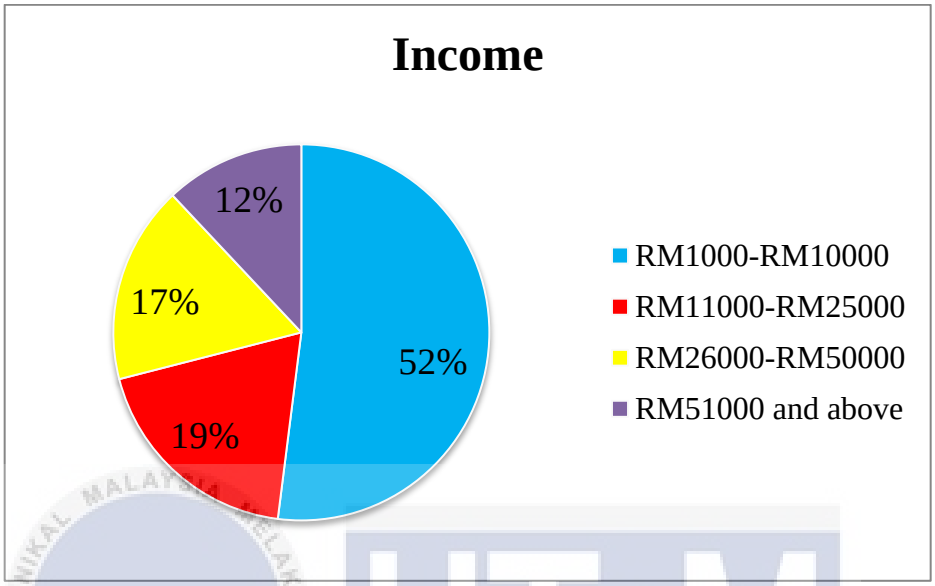

Figure 4.6 : Income per Month

The highest number of SME gain income is RM1000-RM10000, which is 52% or 52 respondents out of 100. Second stage is RM11000-RM25000 that gain by 19% or 19 respondents. Next is RM26000-RM50000 income gain by 17% or 17 respondents. And lastly, the lowest number of SME gain income RM51000 and above which is only 12% or 12 respondents from it.

4.3.3 Existence of Innovation in SME

The figure below shows the number of SME that already involve in innovation.

4.3.3.1 Does SME Company already dedicated to innovation

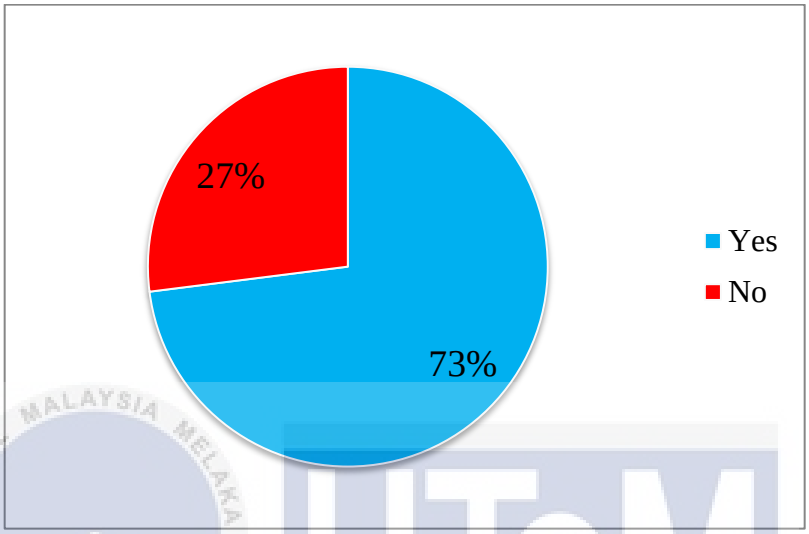

Figure 4.7: Does SME Company already dedicated to innovation

Based on the figure above, it can be shows that there is 73% of SME Company is already dedicated to innovation and the other 27% is not dedicated to innovation.

4.3.3.2 Type of innovation that have been done

Figure below shows the type of innovation that has been done.

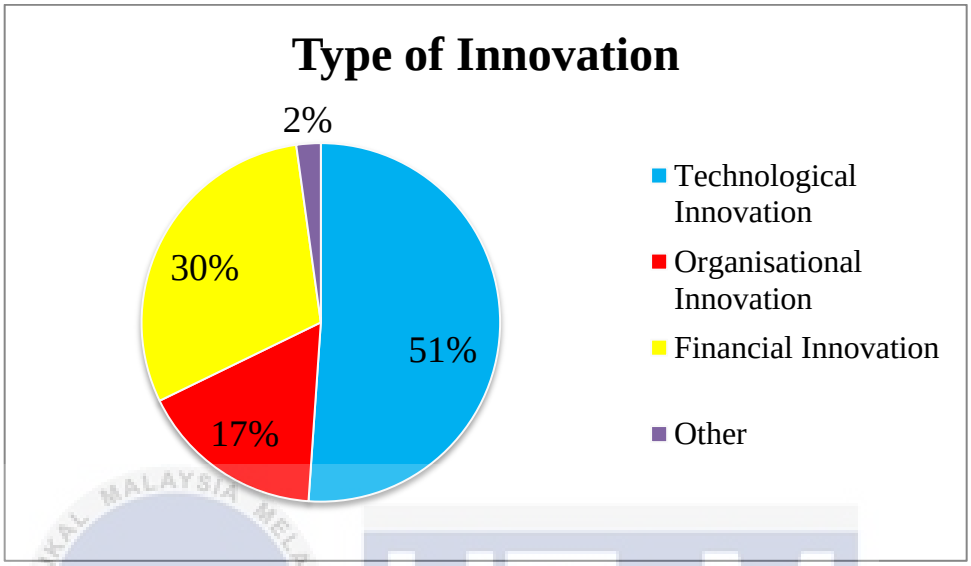

Figure 4.8: Type of Innovation

Figure above shows the type of innovation that has been done by the SME Company. There is based on 73% of company that dedicated to innovation. 51% of them are using technological innovation. This is the highest number. Second is financial innovation which is 30%. Next is organizational innovation which is 17%. And the 2% is from other innovation.

4.4 MULTIPLE REGRESSION ANALYSIS

Multiple Regression Analysis is a statistical tool that allows this research to examine how the dependent variable is associated with multiple independents. In this research, the purpose of multiple regression analysis is to identify the relationship between the innovation capacity factors that affect the performance of SMEs.

4.4.1 Model Summary of Multiple Regressions

Table 4.2 : Model Summary of Multiple Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.606[a]	.367	.347	.59709	.367	18.525	3	96	.000

a. Predictors: (Constant), IV3, IV1, IV2

This section examines the second research objective which is to analyses relationship between the factors of innovation capability and SME performance. In order to determine the relationship, the multiple regression analysis was used. The table model summary above shows the result of multiple linear regression analysis which is to test the hypothesis whether it is accepted or rejected. Based on the table, it represent that the value of R is 0.606 and the value R square is 0.367 and adjusted R square is 0.347, that's mean 34.7% of the independent variables are related with the factors of innovation capability.

4.5 PEARSON CORRELATION COEFFICIENT

Pearson Correlation Coefficient is a metric by which data relationship validity is calculated. This shows the direction, intensity and significance of the relationship between variables.

Table 4.3 : Correlations

		IV1	IV2	IV3	DV
IV1	Pearson Correlation	1	.818	.808	.562
	Sig. (2-tailed)		.000	.000	.000
	N	100	100	100	100
IV2	Pearson Correlation	.818	1	.811	.584
	Sig. (2-tailed)	.000		.000	.000
	N	100	100	100	100
IV3	Pearson Correlation	.808	.811	1	.478
	Sig. (2-tailed)	.000	.000		.000
	N	100	100	100	100
DV	Pearson Correlation	.562	.584	.478	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	100

Table 4.4 shows that, the correlation between all the independent variable which is leadership factors, culture factors, employee development factors and SME performance as a dependent variable. Firstly, the correlation between IV2 and DV is 0.584, thus it is indicate as highest correlation among those variables but at the medium stage. Secondly, the correlation between IV1 and DV is 0.562 which is indicates as moderate correlation between leadership factors and growth. It is also in the stage of medium correlation. Lastly is the correlation between IV3 which is employee development factors and DV SME performance is 0.478, which is represent as weak correlation among those variables.

4.5.1 Hypothesis Testing

1) Leadership Factor

H0: Leadership factor does not positively influence SME performance

H1: Leadership factor positively influence SME performance

Table 4.4 : Hypothesis 1

		IV1	DV
IV1	Pearson Correlation	1	.562
	Sig. (2-tailed)		.000
	N	100	100

Significant value of leadership factor is 0.000. Thus, the significant value is less than p=0.05 and shows there is significant between leadership factors and SME performance.

2) Culture Factor

H0: Culture factor does not positively influence SME performance

H2: Culture factor positively influence SME performance

Table 4.5 : Hypothesis 2

		IV2	DV
IV2	Pearson Correlation	1	.584
	Sig. (2-tailed)		.000
	N	100	100

Significant value of leadership factor is 0.000. Thus, the significant value is less than p=0.05 and shows there is significant between culture factors and SME performance.

3) Employee Development Factor

H0: Employee Development factor does not positively influence SME performance

H3: Employee Development factor positively influence SME performance

Table 4.6 : Hypothesis 3

		IV3	DV
IV3	Pearson Correlation	1	.478
	Sig. (2-tailed)		.000
	N	100	100

Significant value of leadership factor is 0.000. Thus, the significant value is less than p=0.05 and shows there is significant between employee development factors and SME performance.

4.6 DISCUSSION

This chapter shows that the most respondents who are interested in innovation are women. This may be because, at this time, researchers have found that many female traders are more active traders. In addition, the highest age of respondents was below 25 years as adolescents were more knowledgeable about innovation. Next, the researcher found that 46% of respondents have degrees, which means that most degree students are more interested in innovation because they are learning the benefits and importance of innovation at university. Sole proprietorships are very common among teenagers as they are still trying to embarrass the business. Most businesses that want to innovate are businesses that are more than one year old, ranging from 1-5 years because they are stronger and more confident to start something new. The income generated by the majority of respondents is RM1000-RM10000, which means that traders need to increase their income by engaging in innovation and knowing the factors of innovation capability for a company.

Researcher also found that there are 73% of company is already dedicated to innovation capability. This may be because of they already known and has knowledge on understanding innovation capability. The other company not dedicated in innovation capability because they is small company that still use manual or traditional technique without any machines. From the 73%, the 51% of them use technological innovation. This is because most of them is using machine to help increase production and gain

more profit. Researcher also identifies the relationship between factors of innovation capability and SME performance by using multiple regression analysis and Pearson Correlation analysis. Multiple regression analysis shows that the significant value of independent variables and dependent variables is 0.000 which is below than 0.05. Its mean that the questionnaires are accepted and the relationship between the independent variables and independent variables are significant. Pearson correlation analysis shows that the entire hypothesis is accepted in medium and weak correlation. Based on all the discussion above, the hypothesis for all factors is accepted. This is collaborating with the findings that have been done with previous researcher.

As mention in chapter 2, (Bessant, 2003) said that the ability to lead, direct, and support the creation and sustaining of innovation behaviors is important for a firm. It is mean that, leadership is important to have a success innovation. According to (Shane, 1993), Cultural differences may not only account for cross-national variations in innovation, but may also influence the innovation performance relationship because cultural differences affect innovation input, the innovation process, and the commercialization of innovations. While, (Tidd, 2005), state that an innovative organization involves as well as continuing and stretching individual development. This means that all factors are proven positively influence SME performance improvement.

4.7 SUMMARY

In conclusion, early in this chapter, the researcher performed a pilot test to 30 respondents to test the reliability and interpretation of the questionnaire before the results and data analysis were undertaken by the researcher. This chapter mainly summarizes data analysis and interpretation to describe more demographic factor analysis based on data collected from selected respondents as well as the descriptive analysis, multiple regression analysis and coefficients of Pearson correlation were used to analyze the results of the data collected and generated results for further discussion. Tests were able to determine a significant relationship between all three independent variables; leadership factors, factors of society, and factors of employee growth. In addition, this chapter also included the hypothesis result presented that was being established in Chapter 2. The next chapter will give a more detailed discussion of the study's major findings and conclusion.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

Researchers presented the study results part of what was outlined in Chapter 4 in this chapter, as well as suggestion and conclusion. Recommendation includes as a guideline what should be done for future research and the outcome can be meaningful. In addition, this chapter will also discuss the implications of this report.

5.2 FULFILLMENT OF RESEARCH OBJECTIVE

Research Objective 1

To investigate the existing innovation capabilities in SMEs

First and second question in section B answer the research objective 1. It identify the SME company exist in innovation. Based on the questionnaire, there are 73% of 100 SME already involved in innovation. The most of them is SME that exist above 1 year and innovate in technological innovation. This means that these company involve is using innovation machine or others equipment that regarding to innovation. This proves that innovation is only driven by companies that are aware of the importance of innovation.

Research Objective 2

To study the factors that influence innovation capability in SME

These research objective 2 also stated in section B. There are three independent variables have been used to determine the factors of innovation capability. Leadership factors, culture factors and employee development factors are the factors that influenced SME performance. Hence, the result as stated in table, the value of correlation of each question are significant leadership, culture and employee development factor are prove as the factors that influence SME performance. As the result shown in Multiple Regression Analysis from the previous chapter, the significant value of each independent variables; leadership factor, culture factor and employee development factor indicates their relationship with dependent variables; SME performance. Ultimately, the research objective 2 is answered by referring to the result that shows there were positive relationship between independent and dependent variables.

Research Objective 3

To examine the relationship between factors of innovation capabilities and performance improvement in SMEs

A multiple regression analysis was conducted to determine the relationship between innovation capabilities and SME performance. This research objective has been stated in Section C from the questionnaire. In this section, researcher use Pearson's correlation analysis to identify the relationship between independent variables which is leadership, culture and employee development factors and dependent variable which is growth performance of SME. As a result for Pearson Correlation analysis, it can be shown that all the factors of innovation capability have a positive significant to SME performance. Leadership and culture factors have a medium correlation with SME growth performance while employee development factor has weak correlation to growth performance. While, culture factors is the highest significant value. This might be because of the culture of working with innovation from early make it easy for employee to adapt and employee can be trained from beginning.

5.3 LIMITATION

During completing this research, researcher was being restricted with some limitation. Limitation are influence that beyond the control. There are shortcomings, condition or influence that cannot be controlled by the researcher that place restrictions on methodology and conclusions. Any limitation that might influence the result should be mentioned. One of the limitation information gets from SME. This is limited because, not all SME willing to share their personnel information although researcher has provided confidential in questionnaire. Researcher also needs to push SME to answer the questionnaire by giving trust to them that information will be protected.

Second limitation is most of the respondent is employee in SME. Because of that they have lack of information in basic knowledge of innovation. They also do not have much information about organization so it may be difficult and take several times. Last limitation, is due to the feedback times of the respondent are very limited due to their willingness to response in demand without delay. Because of this issue, researcher has to wait; the collecting data take a long time and influence to resume the research.

5.4 RECOMMENDATION

Appropriate and suitable recommendations are being included as would able to help any personnel or other researcher that interested in this sort of research and possibly other research. There is little recommendation for the future researcher. First, future researcher need to provide extra information about innovation capability in SME. This is because the implement of innovation is still on the early stage to the growth of SME performance. The researcher also can clarify what is the important of applying innovation in the SME industry.

Second, the researcher recommend to future researcher to broad the location and area of data collection. This is because, for this research data collected is from Melaka area. So that, future researcher can broad to other state or region instead of only one state. Last, researcher can recommend to future researcher to make a research on all type of SME industry. For this research, the most industry that involved is food and beverages. So that, other researcher can board the research to the other industry.

5.5 CONCLUSION

This research is about the factors of innovation capability that influenced the improvement of growth performance in SME. As discussed in previous chapter, it can be conclude that the perception in the innovation is still in early stage of changes. There were mane approaching steps should be taken in order to increase innovation among SME. Next, researcher succeeds to prove that these three independent variables, which is leadership, culture and employee development, are the factors of innovation capability that influence performance improvement of SME. They also have a positive significant relationship. The result of the analysis that specified in Chapter 4 is to support the research numerically.

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APPENDIX

QUESTIONNAIRE

EMPLOYEE PERCEPTION ON FACTORS OF INNOVATION CAPABILITY THAT INFLUENCE SME PERFORMANCE: A STUDY OF SME IN MELAKA

I am Nur Elia binti Ithnin a final year student in Bachelor of Technopreneurship with Honors of Faculty of Technology Management and Technopreneurship. The purpose of this survey is to assist in completing my degree dissertation regard to the topic of Factors of Innovation Capability that Influence SME Performance. This survey is important in facilitating the followed research objectives. First, I will investigate the existing innovation capabilities in SMEs. Second, I will study the factors that influence innovation capabilities in SMEs. Lastly, I will examine the relationship between factors of innovation capabilities and performance improvement in SMEs. Hence, I seek for your cooperation to complete the following questionnaire and please do complete all section provided. Thank you for your cooperation and honest answer.

INSTRUCTION:

1. There are THREE (3) sections in this questionnaire. Please answer ALL questions for all section.
2. Completion of this form will take you approximately 5-10 minutes.
3. The content of this questionnaire will be kept confidential and for academic purpose only.

ARAHAN:

1. *Terdapat TIGA (3) bahagian dalam soal selidik ini. Sila jawab SEMUA soalan untuk semua bahagian.*
2. *Penyiapan borang ini akan mengambil masa sekitar 5-10 minit.*
3. *Kandungan soal selidik ini akan dirahsiakan dan untuk tujuan akademik sahaja.*

STATEMENT OF CONFIDENTIALLY

The information provided will be held in strictly confidential. We will NOT publish, release, or disclose any information or identifiable with individual person, organization or companies.

PENYATAAN SULIT DAN TERPELIHARA

Maklumat yang diberikan akan diadakan secara rahsia. Kami TIDAK akan menerbitkan, melepaskan, atau mendedahkan apa-apa maklumat atau pendedahan identiti individu, organisasi atau syarikat.

For further clarification or instruction, please contact:

Untuk pengesahan atau pertanyaan, sila hubungi:

1. NUR ELIA BINTI ITHNIN (student)
   nureliauithnin@gmail.com
   H/P : 01136486960

2. DATIN DR SURAYA BINTI AHMAD (supervisor)
   surayaahmad@utem.edu.my
   H/P : 0126017970

SECTION A / *BAHAGIAN A*

This section listed a few question related to your personal and business background in brief. Please tick ONE (1) the answer space provided.

Bahagian ini menyenaraikan beberapa soalan berkaitan maklumat peribadi dan maklumat latarbelakang perniagaan. Sila tandakan SATU(1) jawapan pada ruangan yang disediakan.

i. Background of the respondent
Latar belakang responden

1) Gender :
Jantina :

Male *Lelaki*	☐
Female *Perempuan*	☐

2) Age :
Umur :

Below 25 years old *Bawah 25 tahun*	☐
26 – 40 years old *26 – 40 tahun*	☐
41 years old and above *41 tahun dan keatas*	☐

3) Qualification :
Kelayakan

SPM	☐
Diploma	☐
Bachelor Degree	☐
Master / PHD	☐

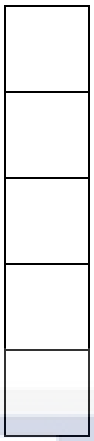
Others, please state :

Lain-lain, sila nyatakan :

_____

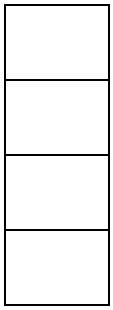
ii. Background of the business
Latar belakang perniagaan

1) Type of business
Jenis perniagaan
Sole Proprietorships
Milikan Tunggal
Partnership
Perkongsian
Limited Liability Company
Syarikat liabiliti terhad
NGO
NGO
Society
Persatuan



2) Year in business
Tahun dalam perniagaan
Below 1 year
Bawah 1 tahun
1-5 years
1-5 tahun
5 years and above
5 tahun dan keatas

3) Income per month
Pendapatan bulanan
RM1000 – RM10 000
RM1000 – RM10 000
RM11 000 – RM25 000
RM11 000 – RM25 000
RM26 000 – RM50 000
RM26 000 – RM50 000
RM50 000 and above
RM50 000 dan keatas



SECTION B / BAHAGIAN B

This section is related to the existence innovation capabilities in SME and factors of innovation capability in SME. Please answer the question below and tick on the scale provided.

Bahagian ini berkaitan dengan kewujudan keupayaan inovasi dalam PKS dan faktor keupayaan inovasi dalam PKS. Sila jawab soalan dibawah dan tanda pada skala yang disediakan.

Strongly Disagree *Sangat tidak setuju*	Disagree *Tidak setuju*	Not sure *Tidak pasti*	Agree *Setuju*	Strongly Agree *Sangat setuju*
1	2	3	4	5

i. Existence of innovation capability in SME
Kewujudan keupayaan inovasi dalam PKS

1) Does your company dedicated to innovation?
Adakah syarikat anda terdedah dengan inovasi?

Yes Ya	
No Tidak	

2) If yes, what type of innovation that have been done by the company?
Jika ya, apakah jenis inovasi yang telah dilakukan oleh syarikat?

Technological *Teknologi*	
Organizational *Organisasi*	
Financial *Kewangan*	
Others :	

_____

ii. Factors of Innovation Capability
Faktor-faktor keupayaan innovasi

a) Leadership Factors
Factor Kepimpinan

No *No*	Statement *Kenyataan*	Scale *Skala*				
		1	2	3	4	5
1	Leadership factors is important to all organization that supports and motivates innovation. *Faktor kepemimpinan adalah penting kepada semua organisasi yang menyokong dan mendorong inovasi.*					
2	Top management leadership will help the successful of innovation activities. *Kepimpinan pengurusan tertinggi akan membantu kejayaan aktiviti inovasi.*					
3	Leadership skills among employees can give ability to lead, creating and sustaining innovation behaviors. *Kemahiran kepimpinan di kalangan pekerja boleh memberi keupayaan untuk memimpin, mewujudkan dan mengekalkan tingkah laku inovasi.*					

b) Culture Factor

Faktor Budaya

No *No*	Statement *Kenyataan*	Scale *Skala*				
		1	2	3	4	5
1	Culture in organisation affect innovation input, innovation process and commercialization of innovation. *Budaya dalam organisasi mempengaruhi input inovasi, proses inovasi dan pengkomersialan inovasi.*					
2	Innovation culture allows SMEs to implementing new method for selling a product that has value for customer. *Budaya inovasi membolehkan PKS melaksanakan kaedah baru untuk menjual produk yang mempunyai nilai untuk pelanggan.*					
3	A good individualism culture can make success of innovation activities in SMEs. *Budaya individualisme yang baik dapat menjayakan aktiviti inovasi dalam PKS.*					

c) Employee Development Factor

Faktor Pembangunan Pekerja

No *No*	Statement *Kenyataan*	Scale *Skala*				
		1	2	3	4	5
1	Employee development aspect includes skills and knowledge play an important role in innovation capability. *Aspek pembangunan pekerja termasuk kemahiran dan pengetahuan memainkan peranan penting dalam keupayaan inovasi.*					
2	A good motivation of the employee's skill is an important factor to create a creative SME company. *Motivasi yang baik terhadap kemahiran pekerja adalah faktor penting untuk mewujudkan sebuah syarikat IKS yang kreatif.*					
3	Creative and innovative employee can be motivated to develop new products and new markets in SMEs. *Pekerja kreatif dan inovatif boleh menjadi motivasi untuk membangunkan produk baru dan pasaran baru dalam PKS.*					

SECTION C / *BAHAGIAN C*

This section is related to the relationship between innovation capability and SME in growth performance. Please indicate to what extent you agree with the following statement. Please tick on the space provided.

Bahagian ini berkaitan dengan hubungan antara keupayaan inovasi dan pertumbuhan prestasi PKS. Sila nyatakan sejauh mana anda bersetuju dengan kenyataan berikut. Sila tandakan pada ruang yang disediakan.

No *No*	Statement *Kenyataan*	Scale *Skala*				
		1	2	3	4	5
1	Innovation is important for the growth of SME in terms of sales, market penetration, profitability and sustainability of SME. *Inovasi adalah penting untuk pertumbuhan PKS dari segi jualan, penembusan pasaran, keuntungan dan kemampanan PKS.*					
2	Leadership skills among top management and employee effect the growth of SME company. *Kemahiran kepimpinan di kalangan pengurusan atasan dan kakitangan memberi kesan kepada pertumbuhan syarikat PKS.*					
3	A good individual and innovation culture in the SME company makes it easy to growth. *Budaya inovasi dan individu yang baik dalam syarikat PKS memudahkan pertumbuhan.*					
4	SME company should develop employee skills and innovativeness to ensure the growth of company. *Syarikat PKS perlu membangunkan kemahiran pekerja dan inovatif untuk memastikan pertumbuhan syarikat*					

Gantt chart to demonstrate research activities

Title: Factors of Innovation Capability That Influence SME Performance: A Study of SME in Melaka

Month Task	March 2019	April 2019	May 2019	June 2019	July 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019
Supervisor Selection										
Identify Research Topic										
Construct RO and RQ										
Chapter 1										
Chapter 2										
Chapter 3										
Presentation PSM 1										
Submission PSM 1										
Questionnaire and Pilot Test										
Collecting Data										
Chapter 4										
Chapter 5										
Final Presentation										
Submit Research										