

INNOVATION AND BUSINESS PERFORMANCES: SMEs CASE STUDY

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ABSTRACT

This study examined the relationship between innovations and SMEs business performances in a Malaysian context. It has two objectives, firstly to determine the relationship between organizational power, experience and culture, and commitment and innovation in Malaysian SMEs. Secondly, the objective was to investigate the moderating effect of participation in decision making and work effort on innovation and business performances. These two objectives were through a descriptive study based on a 60 Malaysian SME survey. The correlation analysis resulted from this study confirmed previous researcher observations that a link exists between higher organizational innovations, commitments, and higher business performance. The results suggest that among the three components of power, experience, and a cultural commitment to the organization, these were the most important predictors of innovations. Cultivating an organization's power, experience, and culture would further enhance employees' acceptance of, and alignment with, organizational goals that promote greater organizational commitment, this leading eventually to increases in innovations and business performances.

Keywords: Owner-driven Businesses' Performance, innovation, power, experience and culture

INTRODUCTION

This study examined the influences of innovation in business performance with the focus on owner driven and non-owner driven SME businesses. The researchers established a research framework to analyze the impact of owner driven influences (the independent variable) on innovations and business performance (the dependent variables). In order to determine the relationship between the variables, the study first examined the relationships between owner-driven influences, measured by power, experience and culture scale, and innovation; it then investigated the direct relationship of owner-driven influence, innovation, and business performances.

In spite of extensive research on the impact of organizational climate and cultural variables on innovation and business performance, there is a dearth of research studies in assessing the extent and the quality of owner-driven influences on innovation and business performance. Much past research has focused upon the links between innovation and business performance without differentiating owner-driven businesses from non-owner driven businesses. Even when this differentiation takes place, the research concerns owner-driven orientation regarding innovation performance. Moreover, the majority of past research focus their studies upon small and medium business rather than big businesses (Drucker, 2007).

Although both owner driven and non-owner driven businesses are concerned with innovation and business performance, what differentiates owner-driven businesses from non owner-driven businesses is the variation in the relative importance of the factors affecting each

decision. Owner-driven businesses are strategically distinct entities and are unique in the strategic processes of tax planning, business continuation, founder transition, and owner/manager life cycles. They have different goals, traditions, life cycle stages, and values as the non-owner driven business. Indeed, owner-driven business decisions are more complex from the fact that non-monetary motivations such as the preservation and transfer owners assets, both tangible and intangible, to the next generation influences management decisions. Moreover, the varying degree of the owner-driven relatives' business involvement should make the measure of their business as a continuum rather than dichotomous between owner-driven and non owner-driven business

This study seeks to answer the following research questions:

1. What is the relationship between ownership's influence, as measured by the power, experience and culture scale, and the level of innovation?
2. What is the relationship between innovation and the business performance?

The aim of this study is to understand better the direct and indirect effects of the multidimensional and continuous operationalization of the owner-driven businesses influence upon innovation and their business performance in the Malaysia SMEs companies. Theoretically, this will help our understanding of how the varying degrees of business-owning family involvement, achieved through the development of owner-driven influences on the power, experience and cultural measurement instrument, affects their relative innovativeness which may lead to different business performance and also set the organizations future research direction.

LITERATURE REVIEW

Innovations Defined

Invention is the first occurrence of an idea for a new product or process, while innovation is the first attempt to carry it out into practice. Hence, innovation is not about invention and technology alone but also about the work practices in which technologies are used. Innovations achieved through development of new products or services, seeking new sources of supply, identifying a new market, and developing new ways to organize business are the basis of this study. Simply stated, innovation is the perception and resulting actions upon business activities in a new and unique ways (Drucker, 2007). For the purpose of this study, the focuses of innovation will be in terms of novelty of ideas, practices, processes, and products.

Innovation to the Business

Successful innovation has provided, and still provides a sustainable competitive advantage and is critical for an organization's long-term survival. While radical innovations open up new markets, there are other forms of innovations. We can have progressive innovation in products or services aimed at meeting the needs of consumers more efficiently. We also can have process innovation that helps lower costs and increase demand through price advantages. Nevertheless, innovation is more than directly increasing profits and productivity, as there are innovations in management and work organization, and in the better utilization of human resources, together with the capacity to anticipate future technology (Chua, Chrisman, & Sharma, 1999).

In general, there is clear evidence that innovation plays a crucial role to long-term profitability and growth in firms. There can be little doubt that today's firms must be able to move in the world of innovation. The successful firms will be those that fully understand that

an innovative business differs from non-innovative business and it is able to respond accordingly to change and can be labelled as “being innovative.”

The Link between Power and Innovation

Power refers to the influence of a firm either directly or indirectly via ownership, governance, and participation in the management of the organization (Astrachan, et al., 2002). As owner-driven ownership, governance, and participation in the management increase, businesses are motivated to maximize financial wealth as well as preserve their socioeconomic wealth (Nordqvist, 2005). They will make key decisions with an eye on the long-term goals and strategies that allow a business to bring forth innovative ideas and implement them in a timely fashion. As observed, owner-driven businesses have the incentives and the powers to support innovations that enhance business performance. These observations suggest the following hypothesis.

Hypothesis 1a: Higher Power is positively associated with innovation.

While owner-driven ownership, governance, and participation in the management might stimulate innovation from efficiencies and quality decision making, it might stifle innovation because of nepotism and agency conflict (Alderson, 2011). As owner-driven ownership increases, owner managers may place their own needs ahead of the well-being of their businesses. They might favor providing for their own children and other members privileges and benefits and, be reluctant to invest in innovation. These observations suggest the following alternative hypothesis.

Hypothesis 1b: Higher Power is negatively associated with innovation.

The Link between Experience and Innovation

Experience refers to the skills, knowledge and values owner-driven businesses passed on generations within the business. This dimension includes the generation in charge and number of owner-driven members associated with the business. Many scholars in the owner-driven business field have considered “The Group” or generation as a definitional factor. Through succession, owner-driven can learn to influence a business more efficiently and minimize potential threatening mistakes.

In owner-driven businesses, owner-driven members are connected for shared advantage.. They are bound by informal social ties such as shared common history, commitment, common languages and informal rules for decisions, communicating and interpreting knowledge (Leach, 2009). These informal social ties allow owner-driven members to collect and gather information collectively through informal discussion and coordination between owner-driven members. As observed, informal social ties allow and enhance owner-driven businesses to orchestrate, nurture and support promising innovation. These observations suggest the following hypothesis.

Hypothesis 2a: Higher levels of Business Experience are positively associated with innovation.

One of the problems raised by informal social ties is how their highly desirable externalities arise in the first instance. As revealed from previous research, owner-driven businesses relationships are stress and complicated. Not all owner-driven members can communicate openly, resolve conflicts, and support each other’s decision. There are siblings’ rivalries, nepotism and conflict of interest in owner-driven business. Inevitable competition may arise among family members regarding the opportunities available for them and their own

children. Agency conflict developed from conflicting goals among the different branches of the owner-driven relatives and nepotism might lead to unwillingness to share information (Gibb Dyer, 2006). This can deprive the firm of a vital source of information that can stimulate innovation. These observations suggest the following alternative hypothesis.

Hypothesis 2b: Higher levels of Business Experience are negatively associated with innovation.

The Link between Culture and Innovation

Culture refers to the shared family and business values as well as the owner-driven commitments to the firm. It measures the degree to which the value system of the business influences the owner driven family. Both popular and academic literatures have long propagated the notion that organization culture may have a significant effect on innovation. Nevertheless, there seems to be a paradox in prior research that organizational culture can stimulate or hinder innovation. Innovative owner-driven businesses have the capacity to absorb innovation into the organizational culture and management processes (Lendel & Varmus, 2011), however, as observed, flexibility, autonomy and cooperative teamwork will promote innovation in owner-driven business as well. These observations suggest the following hypothesis.

Hypothesis 3a: Culture is positively associated with innovation.

While business altruism and long term tenure employed by owner-driven members in the management make family business more apt to exploration of innovative ideas, as well it might lead to a rigid structure that inhibits innovation. Family businesses, particularly established owner-driven businesses, are firstly inclined toward survival then, measurement, and then predictability (Hickman & Raia, 2002). The norms of rigidity, control, predictability, stability and order in established family businesses may foster a culture of unwillingness to make a mistake or take a risk.

These observations suggest the following hypothesis.

Hypothesis 3b: Culture is negatively associated with innovation.

The Link between Innovation and Business Performance

Innovation is a social process (Jain, 2010). As technologies change, products and consumption patterns change. Researchers have long stressed that innovation is important for the profitability and sustainability of business organizations to operate in a rapid and constant change environment. Moreover, one expects that there are direct and indirect effects between the owner-driven influence with innovation and subsequent business performance.

The innovation literature has examined the link between innovation and firm performance. Scholars, such as Damanpour and Drucker, have asserted that innovation play a crucial role to long-term profitability and growth in firms.

Hypothesis 4a: Innovation is positively associated with business performance.

Hypothesis 4b: Innovation is negatively associated with business performance

METHODOLOGY

Sampling Design and Data Collection Procedure

This research employed a descriptive design to support the study of hypotheses presented above. The survey instrument used involved a combination of questionnaires specifically for each of the area of organizational commitment, intention to leave, selected moderating

variables: power, experience, and culture including demographic variables. The distribution of self-administering questionnaires was to a convenience sample of 30 Malaysian SMEs family businesses, as well as the adoption of a non-probability sampling method.

Data Analysis Techniques

The data analyzed using the Statistical Package for Social Sciences (SPSS) version 16.0, where produced was a developed code for each variable prior to input into the program.

From the summing of all Likert Scale points for all questions under a particular measure were to produce a new variable. The following derived measures were from the summing of the Likert Scale points of the respective questions: i) Power participation, ii) Experience commitment, iii) Culture commitment.

The data analysis consisted of the following parts:

Test of normality for each variable. Descriptive numerical method of skewness and kurtosis statistics were used to Test of scale reliability using Cronbach's coefficient alpha for this purpose. Then determinations were made of the relationship between each dimension of power, experience, and culture dimensions with innovations, using the Pearson correlation coefficient analysis for this purpose. Determination of the linear composite relationship between power, experience, and culture variables for participating in innovations were also established. Multivariate statistical techniques with all variables in a regression were used for this purpose.

RESULTS

Normality Test

The normality of all the variables tested was by assessing the skewness and kurtosis values. When data is normally distributed, the value of skewness and kurtosis are zero, as values outside the range of +2 or -2 demonstrate considerable degrees of non-normality (Goncalo, 2004). In this study most of skewness and kurtosis values for all the variables are within the range of +2 or -2.

Reliability Test

Using Cronbach's coefficient alpha to measure the internal consistency of scale, as its value ranges from 0-1. Reliability testing on all measures was necessary. Table 1 below, summarized the Cronbach's coefficient alpha for each measure. A scale is reliable if the coefficient value is more than 0.600 (Handler, 1989). All the measures in this study are considered reliable with the intention 'to leave' scale having the highest coefficient alpha value of 0.836. The measure having reliability coefficients lower than 0.700 was normative commitment.

Table 1. Reliability of measures

<i>No Cronbach's</i>	<i>Measure of Items</i>	<i>Coefficient Alpha</i>
Power	4	0.725
Experience	4	0.710
Culture	8	0.835
Innovations	7	0.775
Business Performances	10	0.836

DISCUSSION

H1a: Higher Power is positively associated with innovation

H1b: Higher Power is negatively associated with innovation

H2a: Higher levels of Business Experience are positively associated with innovation

H2b: Higher levels of Business Experience are negatively associated with innovation.

H3a: Culture is positively associated with innovation

H3b: Culture is negatively associated with innovation

H4a: Innovation is positively associated with business performance.

H4b: Innovation is negatively associated with business performance.

Using the Pearson correlation coefficient analysis determined the relationship between power participation with innovation. The Pearson Correlation coefficient indicates the strength of relationship between the variables. A correlation coefficient between 0.10 and 0.29 indicate a small correlation, while a coefficient between 0.30 and 0.49 indicate a medium correlation and a coefficient between 0.50 and 1.0 indicate a large correlation (Sidin and Zawawi, 2002).

Table 2 shows the Pearson Correlation coefficient (r) between dimensions of power, experience, and culture dimensions with innovations. The overall dimensions Pearson Correlation, $r = -0.574$ indicated a strong positive correlation with innovations. The correlation analysis results show that all three dimensions of power, experience and culture have significant positively relationship with innovations, therefore, hypotheses H1a, H2a, H4a and H5a were fully supported

Table 2. Pearson correlation between dimensions of power, experience and culture dimensions and innovations

Innovations commitment (overall)	-0.571**
Power dimensions	-0.575**
Experience dimensions	-0.323**
Culture dimensions	-0.364**

CONCLUSIONS

Implications

The primary objective of this study was to determine the relationship between innovations and business performance. The second objective was to examine the direct and indirect effects between the owner-driven influence with innovation and business performance. The result of this study will provide empirical support for the validity and reliability of the theoretical model on innovation and owner-driven business performance. The correlation analysis results from this study confirmed previous researchers' observations that higher organizational innovations commitment is linked with higher business performances. The results suggested that among the three components of organizational commitment, the power, experience, and culture dimension were the most important predictor of innovations.

Possible Limitation

Several limitations inherent in this research that warrant further investigation are acknowledged. Unlike other disciplines, owner-driven business lack a singular, unanimously accepted definition. There is disagreement over how measurement and observation. Similarly, some of the same issues have plagued the phenomenon of innovation business performance. Much confusion exists in the organizational literature regarding the definition, appropriate criteria for assessment, adequate means of measuring, and from whose perspective to study the phenomenon of innovation and business performance. Such disagreement inherently creates difficulty and possible limitations for the researcher when designing a study involving these three constructs.

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