



Market Innovativeness of Malaysian SMEs: Preliminary Results from a First Wave Data Collection

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Abstract

In today's dynamic business environment, having good strategies alone is not enough. Businesses must be able to evolve in consonance with the environment and focused on achieving sustained competitive advantages. One potential mechanism through which sustained competitive advantages can be obtained is innovativeness. Drawing upon data from 39 small and medium enterprises in Malaysia, this study examined the relationship of market innovativeness to performance. The findings of this study were somehow consistent with those of the earlier innovativeness study. The result of regression analyses reveals that market innovativeness is significantly related to the performance. Apart from providing some new evidence in the important area of innovativeness of Malaysian SMEs, this study has also important implication for managers and policy makers while revealing considerable scope for future research.

Keywords: Market innovativeness, Performance, Small and medium enterprise, Malaysia

1. Introduction

In today's dynamic business environment, having good strategies alone is not enough. Businesses must be able to evolve in synchronize with the environment. One important way to continuously evolve is through applying innovativeness ability. One of the most comprehensive concepts of innovation is to be found in the definition formulated by Schumpeter (1942). Joseph Schumpeter defined economic innovation in 1942 as:

1. The introduction of a new good—that is one with which consumers are not yet familiar—or of a new quality of a good.
2. The introduction of a new method of production, which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.
3. The opening of a new market that is a market into which the particular branch of the country in question has not previously entered, whether or not this market has existed before.
4. The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.
5. The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position

This particular research is very much interested to study the how firms achieved superior performance. Since looking at both external and internal factors in a single study seems to be very interesting, it is beyond the capacity of the author. Due to that this study will narrow down its scope by focusing on the internal resources that if properly utilized can lead to firm's performance. Specifically, this study will focus on how resources can increase innovativeness of the firms and with high innovativeness, firms will gain superior performance. Since studying all the firms is just not feasible, this

study will only focus on Small and Medium Enterprises (SMEs) located in Malaysia. The main reason for the focus on Malaysian SMEs is based on the importance of SMEs to Malaysia economy. SMEs have been acknowledged as the strategic thrust in Malaysia economy based on various reports of government agencies (SME Annual Report 2005, 2006: 9th Malaysia Plan, 2006; *Third Industrial Master Plan (IMP3) 2006 – 2020*, 2006).

Innovations and Small and Medium Enterprises (SMEs) have been very much at the center of attraction lately. Everybody talks about it, the newspapers, magazines, and even politicians. These situations arise from the fact that SMEs are considered as the engine of growth for Malaysia especially in our effort of achieving the developed nation status. SMEs has been looked at as a technology provider and technology enabler to the industries and constitutes of 96.1% of total establishment in Malaysia as stressed by Hafsah Hashim (2006), CEO of Small and Medium Industries Development Corporation in an article published by The Star dated 11 February 2006.

Currently, SMEs are very vulnerable towards the changes taking place in the world economy and there is an urgent need for SMEs to enhance their competitive advantages (Shen-Li, 2005). Furthermore it is vital to build a strong SME's base if Malaysia is serious in creating home bred Multinational Corporation (MNC). A strong local business environment will also help to attract more joint ventures between Malaysian and foreign companies. It has becomes mandatory for SMEs to exploit their distinctive competencies, to gain sustainable competitive advantages and to seek different ways to improve performance. One way to develop and enhance competitive advantages is through proper utilization of resources and enhancing the innovativeness of the SMEs. Even though every business entity understood the need to properly utilize their resource in achieving their business objective and superior performance, not many of them are successful at actually doing it. In addition to that not much information is known about the driver of innovation or how innovativeness influence performance (Hult, Hurley and Knight, 2004). This research aims to fulfill the following objectives; 1) To assess the current level of market innovativeness of Malaysian SMEs, and 2) to investigate Malaysian SMEs performance as the outcome of market innovativeness.

2. Literature Review

2.1 Innovativeness

Innovativeness is the ability to create something new or bring about sound renewals and changes, acting in a way that utilizes this ability. Innovativeness is also defined as “an organization’s overall innovative capability of introducing new product to the market, or opening up new markets, through combining strategic orientation with innovative behavior and process” (Wang and Ahmed, 2004). Another definition of innovativeness as postulate by Hult, Hurley and Knight (2004) is the firm’s capacity to engage in innovation. Hult, Hurley and Knight (2004) went further to confirm that not much is known about the drivers of innovativeness. In small firm, innovativeness implies a willingness of the owner to learn about and to adopt innovations (Verhees and Meulenbergh, 2004). Quite a number of researches have been done looking at innovation (Hashim, Mahajar and Ahmad, 2003; Mohamed and Rickards, 1996). Research in innovation has been focusing on variety of aspects on innovation. Some of those focuses are (Hashim, Mahajar and Ahmad, 2003):

1. Definitions of innovation.
2. Measurement of innovation.
3. Determining the dimensions of innovation.
4. Innovation sources and types
5. Perspectives and approaches in innovation adoption
6. Factors influencing innovations in organization
7. Competitive advantageous of innovation

Market innovativeness is highly connected to product innovativeness, and often studied as product-market innovativeness (Schumpeter, 1942). This study refer to market innovativeness as the newness of approaches that companies adopt to enter and exploit the targeted market with emphasises the novelty of market oriented approaches. In fact, Ali et al. (1995) consider innovativeness as a market based construct and define innovativeness as the uniqueness or novelty of the product to the market. At a broader level, market innovativeness refers to innovation related to market research, advertising and promotion (Andrews and Smith, 1996), as well as identification of new market opportunities and entry into new markets (Ali et al., 1995). As a component factor separate from product innovativeness, we refer to market innovativeness as the newness of approaches that companies adopt to enter and exploit the targeted market. For some companies, this means that they can enter a market or identify a new market niche and launch products with cutting-edge technological content. An alternative approach would be based on existing products, but with adoption of new marketing programmes to promote the products and services. Under both circumstances, the company is very likely to take up against new competitors either in a new market, or an existing market segment. While product innovativeness maintains a central focus of product newness, market innovativeness emphasises the novelty of market

oriented approaches. Although they are treated as salient factors, product and market innovativeness are inevitably inter-twined.

Before exploring further into the SMEs in Malaysia, it is necessary to realize that there is more than one definition on SMEs available in Malaysia. Furthermore, there are different definitions being used in different countries beyond Malaysia. In Malaysia various agencies provides their own definitions of SMEs. Definitions differ in terms of several factors such as number of full time employees or sales turnover figures and generally defined into two broad categories which are manufacturing, manufacturing related services and agro-based industries as on categories and services, primary agriculture and information and communication technology in another category.

3. Methodology

Innovativeness is difficult to operationalize due to inconsistencies in the definition of innovativeness by various scholars (Li, Chen and Huang, 2006). Subramaniam and Nilakanta (1996) defined innovativeness as enduring organizational traits while Ettlie et. al. (1984) defined innovativeness as the propensity for a firm to innovate or develop new products. Based on existing literature, this study operationalized market innovativeness based on Wang and Ahmed (2004).

3.1 Framework elements and hypotheses

Firms having higher innovativeness might have higher organizational performance (Subramaniam and Nilakanta, 1996). Previous studies investigating the relationship between innovation and organization performance indicated

mixed result, some positive, some negative and some showed no relationship at all (Lin and Chen, 2007). Therefore this study proposed the following:

H1: Market innovativeness is positively related to firm performance

3.2 Sample and procedure

The focus of this study will be at the firm or enterprise level therefore the unit of analysis is the organization. The population of this study was all SMEs in Malaysia. Obviously it is difficult to obtain the list of all the SMEs in Malaysia. Thus this study depended on The Official Business Directory of SMI Association of Malaysia 2007 as the population frame. There are 1621 companies listed in that directory. In order to get the sampling of SMEs for this study, convenience sampling will be used to select the element in the population frame. For this purpose, every listing that provides email address in the directory was selected. An email was sent to those 1400 companies that provide email addresses in their profiles in the directory. Only one respondent will answer the questionnaire as a representative of the organization. SMEs tend to have a relatively limited number of core product and technologies. Therefore the respondents (hopefully the manager or owner) are likely to have a good understanding of their organization, thus enhances the accuracy of the responses (Isobe, Makino and Montgomery, 2004).

3.3 Questionnaire design

There are two main approaches to measure innovation (Tidd, 2001). One of them is to utilize indicators available in the public domain such as number of patents and new product announcement. Another approach is to use survey instruments to capture a broader range of indicators. This study proposed the use of the second approach in measuring innovation. The measurement consist of four questions using seven-point Likert scale ranging from 1 (strongly disagree) to 7 (strongly agree). The questions was adopted from Wang and Ahmed (2004) and listed in Table 4. Firm performance has been operationalized in various ways in previous research. For the purpose of this research performance is operationalized in terms of financial and non financial based items. It will be measure based on self reporting assessment by the respondent from each SMEs. According to Dess and Robinson (1984), self report measure is appropriate and reliable when the objective data is not available.

4. Result

A total of 43 responses were collected out of the total 1400 questionnaires distributed through email. Four responses were discarded because a large portion of the survey was not answered. Hence, only 39 questionnaires were used for the data analysis, thereby giving a response rate of 2.7%. The profile of the respondents is as presented in Table 5.

4.1 Descriptive statistics and reliability

The results indicated that the mean of the Market Innovativeness are the higher, with the mean value of 5.27 whereas for performance it was 3.53. The summary of the descriptive statistics are presented in table 6. The reliability test was carried out for both Market Innovativeness and Performance variables. The tests resulted in retaining all items for Market Innovativeness ($\alpha = 0.66$) and all items for Performance ($\alpha = 0.75$). Considering the resulting alpha values, the internal consistency reliability of the measures used in this study were all acceptable.

4.2 Hypothesis testing

To test the hypothesis generated a regression was run with Performance as the dependent variable and Market Innovativeness as the independent variable. As can be seen from Table 7 the R^2 value of 0.13 indicates that 13% of the variation in Performance can be explained by Market Innovativeness. A closer look at the beta values show that the $\beta = 0.361$, $p < 0.05$, indicating a positive relation between market innovativeness and firm performance. Thus, the hypothesis that market innovativeness affects performance is supported.

5. Discussion and conclusion

This research addresses the impact of market innovativeness on performance in an empirically verified model, thereby filling a significant gap in understanding market innovativeness, the nature of relationships between market innovativeness and the effect of innovativeness on organizational performance especially of Malaysian SMEs. Several contributions to various research streams are noteworthy. First, findings of this research highlight the importance of the effect of market innovativeness on business performance. Next, empirical findings confirm market innovativeness as an important determinant of business performance. This finding is consistent with earlier studies which confirm innovativeness as an important determinant of business performance (Hult, Hurley and Knight, 2004).

5.1 Implication

The findings of this study should simulate owners or managers of Malaysian SMEs to the fact that Market Innovativeness has a significant positive relation to performance. If market innovativeness is important for organizational performance, the task for the management is to design and implement an organizational culture that embodies market innovativeness. To enhance business performance, it is imperative that an organizational structure be devised within a coordinated framework to ensure that activities reap the benefits that market innovativeness.

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Appendix

Table 1. Definition of SMEs by Sales Turnover as published in SME Performance Report 2005

Size	Manufacturing (including Agro-Based) and Manufacturing-Related Services	Services Sector including ICT and Primary Agriculture
Micro	Less than RM 250,000	Less than RM 200,000
Small	Between RM 250,000 and less than RM 10 million	Between RM 200,000 and less than RM 1 million
Medium	Between RM 10 million and RM 25 million	Between RM 1 million and RM 5 million

Table 2. Definition of SMEs by Full-Time Employment as published in SME Performance Report 2005

Size	Manufacturing (including Agro-Based) and Manufacturing-Related Services	Services Sector including ICT and Primary Agriculture
Micro	Less than 5 employees	Less than 5 employees
Small	Between 5 and 50 employees	Between 5 and 19 employees
Medium	Between 51 and 150 employees	Between 20 and 50 employees

Table 3. Distributions of SMEs based on The Census of Establishments and Enterprises 2005 by The Department of Statistics

Sector	Establishments	SMEs	Percentage of SMEs	Percentage of Structure
Total Manufacturing	39,219	37,866	96.6	7.3
Services	119,980	118,662	98.9	23.0
Retail, Wholesale and Restaurants	312,245	311,234	99.7	60.2
Finance	19,291	19,108	99.1	3.7
Total Services	451,516	449,004	99.4	86.9
Total Agriculture	32,397	29,985	92.6	5.8
Overall Total	523,132	516,855	98.8	100

Table 4. Questionnaire Items

Variable	Questionnaire Item	Scale
<i>Performance</i>	1. Number of complaints. *	5-point Likert scale
	2. Return on investment.	1 = greatly decreased
	3. Financial performance.	2 = decreased
	4. Sales growth.	3 = no change
	5. Productivity.	4 = increased
	6. Customer satisfaction.	5 = greatly increased
	7. Employee satisfaction.	
<i>Market Innovativeness</i> (Cronbach's α = 0.6848) (Wang and Ahmed, 2004)	1. In comparison with our competitors, our products' most recent marketing programme is revolutionary in the market	7-point Likert scale
	2. Our recent new products and services are only minor changes from our previous products and services	1 = strongly disagree
	3. In new product and service introductions, our company is often at the cutting edge of technology	2 = moderately disagree
	4. New products and services in our company often take us up against new competitors	3 = disagree
		4 = neutral
		5 = agree
		6 = moderately agree
		7 = strongly agree

* Reverse coded for analysis

Table 5. Demographic Breakdown of the Sample (n = 39)

	Frequency	(%)
<i>Number of Employees</i>		
1 to 10	11	28.2
11 to 50	12	30.8
51 to 100	6	15.4
100 to 200	4	10.3
> 200	6	15.4
<i>Years in Business</i>		
1 to 10	18	46.2
11 to 20	12	30.8
21 to 30	7	17.9
31 to 40	1	2.6
41 to 50	1	2.6
<i>Education Level</i>		
Phd/Doctorate	1	2.6
Master's/MBA	7	17.9
Bachelors Degree	16	41.0
Diplomas	8	20.5
Technical Certificate	3	7.7
SPM/High School	3	7.7
Others	1	2.6
<i>Position</i>		
Director/Senior Manager	20	51.3
Manager/Assistant Manager	3	7.7
Section head/Senior Engineer/ Senior Executive	4	10.3
Others	12	30.8
<i>Industry</i>		
Electronics/electrical	3	7.7
Machinery and equipment	3	7.7
Textiles & wearing apparel	1	2.6
Food products and beverage	3	7.7
Chemical and chemical products	1	2.6
Computer products	1	2.6
Furniture	1	2.6
Rubber and plastic products	1	2.6
Publishing and printing	1	2.6
Fabricated metal products (except machinery and equipment)	2	5.1
Radio, television and communication equipment and apparatus	1	2.6
Others	21	53.8
<i>Business Category</i>		
Fully Malaysian-owned company	30	76.9
Local and foreign joint venture company	1	2.6
Fully owned by foreign company	8	20.5

Table 6. Descriptive Statistics for Market Innovativeness and Performance Variables

Variable	No of Items	Mean	Standard Deviation	Cronbach Alpha
Market innovativeness	4	5.27	0.72	0.66
Performance	7	3.53	0.47	0.75

Note: Market Innovativeness = (1-7), Performance (1-5)

Table 7. Regression Analysis for Hypothesis One: Impacts of Marketing Innovativeness

Variable	Dependent Variables Performance
Market innovativeness	0.361*
R^2	0.130
Adjusted R^2	0.106
F Value	5.384

** $p \leq 0.01$, * $p \leq 0.05$

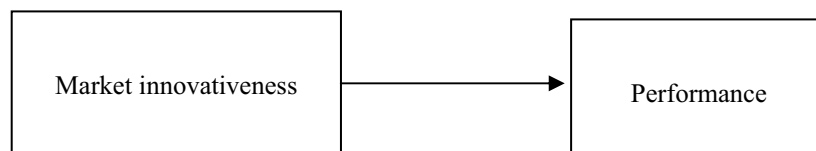


Figure 1. Schematic Diagram of Research Framework