THE EFFECT OF BUSINESS INNOVATION CAPABILITY, ENTREPRENEURIAL COMPETENCIES AND QUALITY MANAGEMENT TOWARDS THE PERFORMANCE OF MALAYSIAN SME'S

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ABSTRACT

Performance of Malaysian SME's is really important for the firms in order to identify their strength. One of the strategies is to do business innovation, entrepreneurial competencies and quality management and other support to improve the performance. Thus the purpose of this research is to find out how effective all the independent variables in order to improve the performance of Malaysian SME's in Klang Valley area. Secondly is how entrepreneurial competencies can increase the level of SME's performance with full understanding about the entrepreneurial competencies itself. The last gap is business innovation capability which will give the positive impact towards the performance of organization, but with the low level of knowledge, responsiveness will affect the performance of the organizations. The objective of this study is to find the relationship between business innovation capabilities, entrepreneurial competencies and quality management towards the performance of Malaysian SME's. A close-ended questionnaire survey was collected from a sample size of 50 respondents among SME's in Klang Valley area. SPSS version 20.0 is used to find the data reliability, frequencies, correlation and regression in order to test the entire hypothesis involved and also to answer all the objectives of the research. The result shows that business innovation capability and quality management have positive relationship with the performance of Malaysian SME's.

Keywords: Business Innovation Capability, Entrepreneurial Competencies, Quality Management.

Introduction

Globalization has changed the business environment which will increase the competition especially in developing country. According to Kassim *et al*. (2003) in (Tuanmat and Smith, 2011) globalization brings in new technology and makes a developing country open to bigger competition. Because of that, SMEs not only have struggle among themselves, but also to fight with the larger manufacturing for service firms.

The value of small and medium enterprise (SMEs) to the nation's economy has been well established, in both the developed and developing countries SME's are considered the most dynamic businesses (Aziz and Mahmood, 2011). Firms that are within the group of SMEs are at a disadvantage when trying to compete internationally due to the complexity of the international business environment and the comparative scarcity of resources (Durmusoglu *et al*., 2011).

The studies on SME's in Malaysia is important since the research are still narrow in scope and fragmented in nature although research on SME's in Malaysia has attracted an increase in attention due to the importance of SMEs in contributing to the economy (Mokhtar, Yusoff, and Ahmad, 2014). Other than that, compared to large company, small firms have fewer resources, lack of expert skill and limited impact on the marketplace (Talib, Ali and Idris, 2014). In recent years, entrepreneur competencies become one of the important factors to success in modern economy because it affects the development of an entrepreneurial mindset. Entrepreneur competencies are one of the characteristics to succeed in a job performance. As a result, the number of studies on competencies has increased and already broadens to different management positions (Yunoh and Ali, 2015).

The risk and obstacles faced are highly related to the developmental stage of the companies and it includes lack of entrepreneurial competencies, shortage in financing as well as human resources. This increases the advantage among SME's to ensure business sustainability which coexists within an environment of good corporate authority. This study is aimed to overcome organization performance problems hence a theoretical framework model for performance of Malaysian SME's has been proposed. The main features of the theoretical framework consist of business innovation capability, entrepreneurial competencies and quality management which all variables can contribute to the improvement of Malaysia SME's performance. Besides, the impact on organization performance of the business innovation capability, entrepreneurial competencies and quality management perhaps, the most important sources of organization performance today. The main objective of this study is to know

the relationship between business innovation capability, entrepreneurial competencies and quality management towards the performance of Malaysian SME's.

Literature Review

Business Innovation Capability

There has been plethora of definition to explain about innovation in this world. Filippetti (2011) acknowledged that the innovation is broad concept which is include the new method in business practices and new marketing concept, workplace organizational or external relations and also include the implementation of a new or significantly can improved product either it is goods, services or processes. One of the innovations that can be done is through innovation of people's characteristics which is that can be trained and developed.

Hult *et al.* (2004), stated that a new products or services, a new production process, a new structure or administrative system that can be classified as an innovation while Saunila *et al.* (2014) stated that the determinants influencing an organization's capability to manage innovation capability is one of the definition to describe innovation capability. The most crucial part for the firm to success is the firm's capability to produce innovation (Saulina *et al.* 2014) According to Silva *et al.* (2012), there are multiple factors to determine innovation capability that varies from firm to another firm. For example, Lawson and Samson (2001) in (Saulina *et al.* 2014) stated, the ability of the firm to continuously knowledge and ideas into new products, processes and system for the benefits of their stakeholders and firm itself is the deep definition of innovation capability. Therefore the following hypothesis is proposed:

> *H1: Business innovation capability will have positive impact on performance of Malaysian SME's.*

Entreprenuerial Competencies

Despite business worldwide increasingly creating value and enhanced contribution through the innovative use of marketing business tools, skills, knowledge, behaviors and other factors much of the potential value and the most significant opportunities for making competitive advantage in order to remain in the industries. Sanchez (2012) stated that in order to enhance people performance and effectiveness at work, one of the main points that must be focus on is competencies.

In recent years, entrepreneur competencies become one of the important factors in order to succeed in modern economy because it affects the development of an entrepreneurial mindset. On top of that, Mitchelmore and Rowley (2013) stated that there are four key groups of competencies that can improve business performance and growth which is personal and relationship, business and management, entrepreneurial and human relations competencies. Because of the number of studies on competencies have increased and broaden to different management positions, entrepreneur competencies is one of the characteristics to succeed in a job performance (Boyatzis, 1982). Compared to entrepreneurial characteristics for example personality traits, intentions or motivations, competencies are seen as obvious that are closer towards the performance (Bird, 1995). However, Man *et al.* (2002) stated that to perform a job role successfully, an entrepreneurial competency is the total ability of the entrepreneur. Thus, this study proposed that:

> *H2: Entrepreneurial competencies will have positive impact on performance of Malaysian SME's.*

Quality management

Recent years, in order to ensure that an organization, product or service is consistent, the important factor need to be considered is quality management. There are several approaches under quality management. According to Lakhal *et al.* (2006), quality has put forth several approaches to develop company performance. (Saraph *et al.*, 1989; Flynn *et al.*, 1995; Ahire *et al.*, 1996) stated that in order to identify the key quality management practices on which the success of a TQM process there are several studies have attempted.

According to Prajogo *et al.* (2005) in order to meet or exceeds customer potential, total quality management (TQM) is an integrative organizational-wide philosophy which constantly improving the quality of products/services and processes in the future. Besides that, Hunt (1993) stated TQM can improve organizational performance as well as quality. According to Llore *et al.* (2003) model, in order to clarify a greater variance which can affects organizational performance in the TQM and performance relationship, the question both in theory and in practice must be gathers.
Therefore the following hypothesis is proposed:

> *H3: Quality management will have a positive impact on performance of Malaysian SME's.*

SME's Performance

Recently, in Malaysia one of the factors that will boost up Malaysian economic growth is from SMEs. The development of country's economic Malaysian Small Medium Enterprises (SMEs) is vital components, (Mokhtar et al, 2014) stated that SMEs inclusive of multinational and transnational corporation are one of the components that contribute the country's economic development. There are many definitions to explain about SMEs.

The table below shows SMEs' definitions based on number of full-time employees and annual sales turnover.

Table 1

Sector	Primary agriculture	Manufacturing (including Agro-based and MRS)	Services sector (including ICT)

Micro	Less than 5 employees or less than rm200,000 of annual sales turnover	Less than 5 employees or less than rm250,000 of annual sales turnover	Less than 5 employees or less than RM200,000 of annual sales turnover
Small	Between 5 and 19 employees or between RM200,000 and less than RM1 million of annual sales turnover	Between 5 and 50 employees or between RM250,000 and less than RM10 million of annual sales turnover	Between 5 and 19 employees or between RM200,000 and less than RM1 million of annual sales turnover
Medium	Between 20 and 50 employees or between RM1 million and RM5	Between 51 and 150 employees or between RM10 million and RM25 million of annual sales turnover	Between 20 and 50 employees or between RM1 million and RM5 million of annual sales turnover

:Source: Aziz, S.A. & Mahmood, R. (2011)

SME's like service sector, wholesale business, retail and restaurant. Besides that, SME's is one of the main contributor to the Malaysian economic growth which contributions include: (a) addressing poverty by adding jobs and improving income, (b) disperse economic activities in the countryside, and providing broad-based sources of growth, (c) serving as suppliers and providers of support services for large enterprises, (d) stimulating entrepreneurial skills among the populace, and (e) acting as incubators for developing domestic enterprises into large firms (Habaradas, 2008).

On top of that, Normah (2007) in (Aziz and Mahmood, 2011) acknowledged in order to driving industrial development, Malaysian SMEs is one of the backbone of economic growth of an economy. Ghobadian et. al (1996) mentioned that SMEs not only creation of worldwide, but it also exert strong influence on the economies of all nations. The value of small medium enterprise (SMES) to the nation's economy has been well established, in both the developed and developing countries SMEs are considered the most dynamic businesses (Abdul Aziz and Mahmood, 2011). (Griffin and Ebert, 2006) stated that, SMEs also generate new ideas and processes through innovation which increase strength to the market place and they are important to the large firms, not only in supplying their raw material needs, but also distribute the goods made by these firms to the target markets. According to Venkataraman and Ramanujam (1986), perspective of strategic management is measured to be a subset of the broader concept of organizational efficiency that reflected from the performance. Volchek *et al.* (2013) stated the existing institutional constraints normally hampered through innovativeness and international growth aspirations that being highly entrepreneurial for the emerging economies.

Methodology

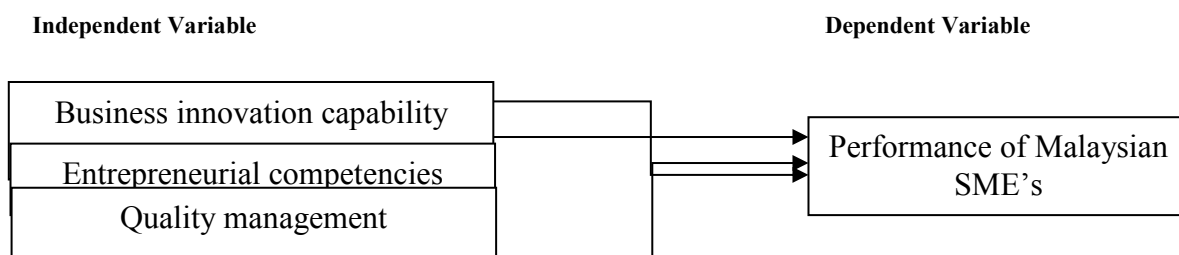Figure 1: Theoretical Framework

Figure 1 shows the Theoretical Framework formed the foundation for the entire research project. Based on the literature on the ideas and research worked done earlier this study formulates the theoretical framework explaining that the dependent variable focusing on performance of Malaysian SME's.

The research conducted at Klang valley area in September 2015. The total respondents are 60 SME's companies around Klang Valley area consist of different type of companies. Out of the total questionnaires were sent, only 50 SME's were returned back. The respondents will be required approximately 15 minutes to complete the questionnaire. This study is to explore the influence of 3 key determinants that will influence towards the performance of Malaysian SME's. The 3 key determinants are business innovation capability, quality management as well as entrepreneurial competencies.

The population of this study consists of SME's companies that were involved in service sector, wholesale business, retail and restaurant. In this study, simple random sampling were employed to collect the data from the respondents. The sample consists of SME's companies in Klang valley. The questionnaires were distributed to respondent which is the owner of the companies or the general manager of the companies. The questionnaire comprised of three sections. The first section is designed to capture the

respondents demographic. The questions asked in this section are related to the respondent's Gender age, educational background, number of employees, years of establishment and firm's type. The second section is designed to evaluate the factor that lead to the performance of Malaysian SME's.

Results

All the data that had been collected were analyzed by using SPSS version 20.0. The purpose of this part is to provide analysis of the data collected and discuss the output of research. These findings are derived from 50 set of questionnaires.

Table 2: Percentage of demographics

Demographic

		FREQUENCY	**PERCENT**	**VALID PERCENT**
GENDER	MALE	32	40.5	64
	FEMALE	18	22.8	36
AGE	BELOW 30 YEARS	28	35.4	56
	31-40 YEARS	15	19	30
	41-50 YEARS	5	6.3	10
	51-60 YEARS	2	2.5	4
EMPLOYEES	LESS THAN 5 EMPLOYEES	37	46.8	74
	5-50 EMPLOYEES	9	11.4	18
	51-150 EMPLOYEES	4	5.1	8

From table 2, the result for demographics section and the three questions have been selected from six questions because these three questions are more related for this study. Question 1 from demographics stated about the gender, between male and female the result are show male is highest percentage which is 64% compared than female. Question 2 from demographics stated about age of the workers and the highest percentage (56 %) is the workers age below 30 years compared than age 31 to 40 years, 41 to 50 years and 51 years and above. Last question from demographics is about the number of employees. The highest percentage of the question is less than 5 employees who are running their business themselves.

Correlations

This study was conducted by examining the relationship between the two variables by using Pearson product-moment correlation coefficient.

Table 3: Correlations

		TOTALSECB	**TOTALSECC**	**TOTALSECD**	**TOTALSECE**
TOTALSECB	Pearson Correlation	1	.730**	.655**	.669**
	Sig. (2-tailed)		.000	.000	.000
	N	50	50	50	50
TOTALSECC	Pearson Correlation	.730**	1	.883**	.535**
	Sig. (2-tailed)	.000		.000	.000
TOTALSECD	N	50	50	50	50
	Pearson Correlation	.655**	.883**	1	.658**
TOTALSECE	Sig. (2-tailed)	.000	.000		.000

N	50	50	50	50
Pearson Correlation	.669**	.535**	.658**	1
Sig. (2-tailed)	.000	.000	.000	
N	50	50	50	50

**. Correlation is significant at the 0.01 level (2-tailed).

From the results (table 3), we can see that the strongest correlation with performance of company is business innovation capability with a correlation of 0.730 (very strong relationship) and second variable that have strong correlation is quality management which is 0.669 compared to entrepreneurial competencies (0.655). Therefore, it can be concluded there is relationship between all independent variables and dependent variables. As shown above, all hypothesis are consistence with the hypothesis and the research objective which is there is positive relationship between business innovation performance of Malaysian SME's, there is positive relationship between entrepreneurial competencies and organization performance and last there is also positive relationship between quality management and organization performance. All the results answered our research objective in order to know the relationship between independent variable and dependent variable.

Regression

Table 4: Summary of Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.815a	0.664	0.642	0.2785

From the Table 4 above, one model and all independent variables are selected from this result. It shows that business innovation capability, entrepreneurial competencies and quality management did have relationship with dependent variable. The value of R for model 1 is +0.815, it shows that there is a very high correlation between dependent variable (performance) and independent variable (business innovation capability, entrepreneurial competencies and quality management).

The coefficient of determination (R2) is statistical measure of how well the least squares equation. The range value of R2 is from 0 to 1, the higher value of R2 the more useful for the model. From table 4, R2 value for model 1 is 0.664. It indicates that 66.4% increase in performance when three variables will make an improvement which is marketing business innovation, entrepreneurial competencies and quality management.

Anova

Table 5 : Anova

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	7.035	3	2.345	30.235	.000b
1	Residual	3.568	46	0.078		
	Total	10.603	49			

F-statistic is a value resulting from ANOVA and it is to determine if the variance between the means of two models are significantly different. From the table 5 it shows that there is relationship between three independent variable which is business innovation capability, entrepreneurial competencies and quality management with dependent variable (performance of Malaysian SME's) at significant level.

Regression Model

Table 6: Summary of Coefficients Table

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	0.693	0.182		3.805	0
	TOTALSECC	0.568	0.132	0.789	4.291	0
	TOTALSECD	-0.298	0.171	-0.361	-1.749	0.087
	TOTALSECE	0.528	0.125	0.484	4.228	0

From table 6 above, the business innovation capability(B: 0.568) is significant (p: 0.000) because the P value are less than 0.05 which indicate that business innovation capability is related to the performance of Malaysian SME's in Klang Valley. Moreover, quality management (B: 0.528) show significant (p: 0.000) because the P value are less than 0.05 which also indicate that quality management is related to the performance of Malaysian SME's. However, the entrepreneurial competencies (B: -0.29, p: 0.087) is not significant because the P value are more than 0.05 and seems to be unrelated variable to the performance of Malaysian SME's in Klang Valley. This would seem to indicate that entrepreneurial competencies are not an important factor to investigate the performance of Malaysian SME's problems.

Conclusion

In conclusion, the results of this study, it is shown that only business innovation capability and quality management are most contributed to the performance of Malaysian SME's meanwhile another factors that contributed in improvement of the performance which is entrepreneurial competencies is not significantly influenced by these findings. This is because the p-value for entrepreneurial competencies is more than 0.05 compared than another two variable. To relate the various business innovation capability to the performance of Malaysian SME's, the first objective for this research is to study the performance of Malaysian SME's in Klang Valley area is achieved. The correlation of business innovation capability which is 0.730 (strong relationship), which indicates that business innovation capability does help firms to increase their performance. Moreover, the findings of this study also stated that it was found out that there was no relationship for the independent variable (entrepreneurial competencies) and dependent variable (performance) which the results shows that is not significant because the P value are more than 0.05 and seems to be unrelated to the performance of Malaysian SME's in Klang Valley. Third research objective is to measure the effectiveness of quality management towards the performance. In order to find out the effectiveness, we used correlation method in order to find the effectiveness of the quality management towards the performance. After the data was analyzed it was found out that the result is 0.669 which is has strong relationship between quality management and performance of Malaysian SME's. It is important to address some limitation for this study. First, about our data were collected in Klang Valley area. As a result caution must be implemented when attempting to generalize the results with other countries. Less study focus on the entrepreneurial competencies and performance hence lack of previous journal to refer. A wider and more detailed approach on that area should be included in specific field to better understand and improve their skills. Besides that, there is lack of cooperation among the respondents. Therefore cooperation among the relevant companies and coordination of information on entrepreneurship need improvement to ease future researchers to obtain complete information especially an up to date so that it can help researchers to get the best result for their study. Moreover, this study is descriptive in nature and the sample size is small. Hence, a much larger scope of study is needed to establish such links as to assess the diversity of factors that influence study on SME's performance so that this study can be as good references to the other researchers. On top of that, future research can investigate some of other unique factors in the country which can influence new way of thinking to improve the study.

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