

## Towards an Innovation Culture: Enhancing Innovative Performance of Malaysian SMEs

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### Abstract

*The ability to have high level of innovative performance is essential in competitive global market, particularly for small and medium-sizes enterprises (SMEs). SME is the cutting edge of economic policy debate which innovation can be one of the engines of the growth. An examination of the relationship among organizational learning, innovation culture, and innovative performance leads to a conceptual framework that can help SMEs structure their business strategies and practices to keep them aligned with dynamic market. The framework may guide SMEs sector how to adopt innovation activities in their practices to gain a desirable performance in the competitive environment. A pilot study was conducted with a sample of five SME entrepreneurs from Malaysia participated in this study. A series of interviews were conducted among these entrepreneurs to probe into their outlook on innovation culture. The results showed that SME entrepreneurs highlighted the importance innovation culture via organisational learning in their business activities. Although some entrepreneurs perceived innovation culture is difficult to nurture, it serves as a key trend shaping their innovative performance in term of generating new ideas, knowledge and skills. In sum, this study generates agenda for researchers to reach more conclusive evidence about the practice of innovation culture and innovative performance among SMEs in Malaysia.*

**Keywords:** Innovation culture, Organizational learning, Innovative performance, small and medium enterprises (SMEs), Malaysia.

### 1. Introduction

Malaysian government has acknowledged SMEs as an important sector that is catalyzing the investment in the country. The SME sector has been also considered as a means to transform Malaysia into a developed nation by 2020. It has been reported that 99.2 % of total established businesses in Malaysia are SMEs and only 0.8 % are large establishments (Economic Planning Unit, 2010). Furthermore, almost half of the total SMEs are micro industries (55.3 %), followed by small (39.5 %) and medium only 5.2 % (SME Corporation Malaysia, 2010)(SMIDEC, 2010). It is also noteworthy to state that such economic contribution of the sector predominantly driven by the manufacturing oriented SMEs. In terms of employment, SMEs are also playing pivotal role by securing 52.7 per cent of the total employment in Malaysia (Salikin et al., 2014; SME Corporation Malaysia, 2011). Such scenario indicates the importance of SMEs sector in Malaysia. However, in the perseverance of new product introduction, business growth and expansion, SMEs are playing positive role in the Malaysian businesses (The National SME Development Council, 2011). Nevertheless, despite of up beating circumstances, the contribution of Malaysian SME to the national Gross Domestic Product (GDP) is relatively low as compared to other countries.

As an emerging country, Malaysian SME faces immense pressure and multidimensional challenges in the latest competition of the 21st century. Researchers have noted that for last few years, Malaysian economic engine is slowing down along with financial crisis. The decline in Malaysia's economic performance is due to the slow improvement in labor productivity and losing its attractiveness as an investment destination (New Economic Model, 2010). Furthermore, Malaysia's rank within the Global Competitiveness Index has dropped from 21st to 24th in 2010. Previous studies suggest that most of the SMEs have been facing learning disabilities, disorders and dysfunctions (Garvin, 2000; Senge,

1992). It is due to the unaware of the organizational learning deficiencies that impact performance and results within their operations (Nafukho et al., 2009; Snyder & Cummings, 1998). In addition, the competition in the SME sector is very high which forces the businesses to differentiate their products and services as compared to their competitors. The stiff competition requires the SMEs to offer facilitating and supporting products innovation along with the core business process (Luoma-aho et al., 2012). However, as an industry the SME sector as a whole is still not able to differentiate and produce a good quality of products and services that can compete with the products of those countries which have reached the status of high-income nations (PEMANDU, 2010). Even though, the Malaysian government has put extra effort to nurture the innovativeness among the SMEs especially to move Malaysia into the innovation-led economy. It is suggested that the Malaysian SMEs need to rely on individuals' entrepreneur's ability, knowledge and creativity to innovate. Therefore, Malaysia needs to encourage the human resources to be innovative, creative and proactive in order to move towards innovation-centered economy that importantly requires an innovation culture among the SMEs. In order to go forward, Malaysian SME sectors has to strengthen its capability to innovate, adapt and create indigenous technology, design, develop and market new products (MOSTI, 2010).

In line with the Malaysian government aspiration to transform its economy by fostering innovative performance via innovation culture, the study on innovation culture and innovative performance warrants significant attention. Although, there has been many researches carried out on innovation, but very limited studies have considered the factors that could nurture the innovation culture that enhance innovative performance. This study has considered the organizational learning as the predictor for innovation culture. It is expected that with the influence of organizational learning, innovation culture would facilitate to achieve the innovative performance of the SME sectors in Malaysia. With regard to the attempt made, this study proposed a framework which would unleash the elusive issues for the innovative performance of the SMEs in Malaysia. As such, the objective of this study is to conceptually examine the influence of organizational learning on innovation culture of SMEs in Malaysia as well as to test the relationship between innovation culture and innovation performance. Concurrently, this study also aims to investigate the mediating effect of innovation culture on the relationship between organizational learning and innovation performance among Malaysian SMEs. However, at this juncture in order to obtain fresh views on the concept of innovation culture, this study embarks on the preliminary interviews with the selected SME owners on the concept of innovation culture and innovative performance.

## **2. Enhancing Innovative Performance**

In today's turbulent market, organizations face increasing global competition, rapid changes in customer demand, and ever-changing technologies (Malekifar et al., 2014). To have a successful organization, innovative ideas along with efficiency and effectiveness of implementation of those ideas are required (Halim et al., 2014). These innovative ideas and successful implementation will lead to a desirable innovative performance.

Scholars are trying to find a solution to the question of 'how to innovate' and they have conceptualized this as the tendency of organization to support new and novel ideas, experimentation, and creative processes which facilitate the organisation to achieve new products, services or technological improvement (Madhoushi et al. 2011; Certo et al. 2009). Realizing the importance innovative performance among SMEs particularly in Malaysia, they are encouraged develop new products and services which eventually may enhance their innovative performance. Notably, by developing new products and services, SMEs have the ability to achieve a solid and competitive position in the market. In fact, innovative performance is an important aspect which allows the SMEs to improve their flexibility and competitive position (Alshekaili & Boerhannoeddin, 2011; Van de Ven, 1986).

## **3. The Role of Innovation Culture**

In line with above discussion, innovation is considered as a new paradigm which challenged the traditional management strategy and practices (Hamel, 2006). This is because, innovation fosters the adoption of new idea or behavior which is new to the organization (Harkema, 2003). It can be a new product, a new service or a new technology developed by the organisation. Innovation also is the process of turning opportunities into a practical use (Tidd, 2001) and can only be realized when an organisation adopts this process in its business practices (Sharifirad & Ataei, 2012). Nevertheless, the practice of innovation is not easy to adopt without having the culture that encourages the organisation to innovate. As such, organisation needs to foster the culture of innovation in its daily business activities.

In general, culture refers to a degree in which values, norms and artifacts support the organization's innovativeness (Stock & Zacharias, 2011). Innovation culture can be influenced by several determinants such as strategy,

structure, support mechanisms, behavior, and open communication (Martins & Terblanche, 2003). Innovation culture depends on the right types norms which are widely shared among the employees and to activate creativity among them (Abidin et al., 2012; Ahmed, 1998) which will push them to create innovation mentality (Stock & Zacharias, 2011). Therefore, to operate successfully in a dynamic business environment, it is essential for the organisations to understand the values that drive and support the culture of such an environment. For Malaysian SMEs, in order to enhance their competitive advantage, they need to adopt a culture of innovation to strengthen their innovative capabilities particularly to boost their research and development (R&D) (Al-Amin, 2013). Indeed, SMEs with innovation culture will encourage the employees to become alert, creative and innovative in maneuvering the organization (Škerlavaj et al., 2010). As a result, SMEs with a great innovation capability may achieve better response from the environment and improve the capabilities required to enhance organizational performance and competitive advantage.

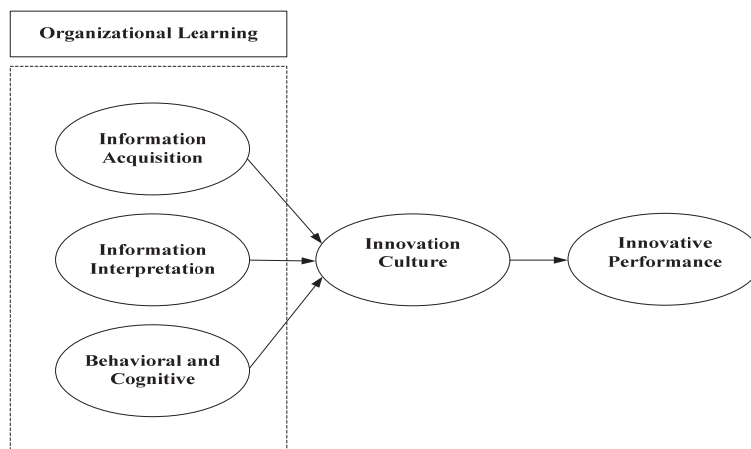
#### 4. Opportunities through Organizational Learning

Organizational learning refers to the development of new knowledge but a complex process which has the potential to change behavior (Slater & Narver, 1995). Senge (1992) defines organizational learning as “a continuous testing of experience and its transformation into knowledge available to whole organization and relevant to their mission” (p.6). Huber (1991) and Moingeon and Edmondson (1996) have operationalized organizational learning into three categories namely information acquisition, information interpretation, and behavioral and cognitive.

Organizations with a strong learning culture are good at creating, acquiring and transferring knowledge, as well as at modifying behavior to reflect new knowledge and insight which may lead to improved performance (Garvin, 2000; Hernaus et al., 2008). Therefore, organizational learning encourages the organisations to acquire information, interpret information understandably, and transform information into knowledge among the stockholders (Darvish & Nazari, 2013).

#### 5. A Framework for Understanding Innovative Performance

Based on the literature discussed above, a conceptual framework has been developed for SMEs that proposes organizational learning as the predictor for innovation culture resulting in innovative performance. In this model, innovation culture is believed to be a mediating variable on the relationship between organizational learning and innovative performance. This framework constructs dimensions that would help to establish an innovative performance model (Figure 1).



**Figure 1:** A framework for the relationship between organizational learning, innovation culture, and innovative performance

Organizational learning focusing on acquisition of information, distribution and sharing of learning, and support continues learning may have influence on innovation culture among SMEs. According to Murray & Donegan (2003), sharing and transferring knowledge can help organizations function more effectively. This is because, the organization members have the capability to turn information and knowledge into an action in an innovative way. However, fundamental requirement

to link crucial element in organizational learning and innovation is a positive and supportive psychological factor for learning application (Darvish & Nazari, 2013). In fact, innovative organization members are reflected by innovation culture where values and belief is based on observable, salient work context factors such as norms. In this respect, norms is associated with the creativity and innovation, human resource practices that support ongoing employee development that will facilitate efforts directed at changes and innovation (Martín-de Castro et al., 2013). However, the innovation culture is reflected through an individual expectation and self-belief regarding learning application and beliefs about the value of change and improvement through learning (Bates & Khasawneh, 2005). In this sense, Darvish and Nazari (2013) have noted that positive changes among the way people act come from the behavioral and cognitive changes (internal and external environments) which may have a positive impact on innovative culture. Therefore, changing in people action and cognitive behavior may lead to the understanding of the importance of innovation among SMEs. Based on the above discussion, this study proposes that the dimensions of organizational learning namely information acquisition, information interpretation, and behavioral and cognitive may have an influence on the innovation culture of SMEs. Thus, the following proposition is based on the above discussion:

**Proposition 1:** *Dimensions of organizational learning namely information acquisition, information interpretation, and behavioral and cognitive may have an influence on the innovation culture of SMEs in Malaysia.*

To achieve innovation performance, organization can have a set of organization-wide shared beliefs and understanding. In this respect, innovation activities happen in the specific social and economy context and the cultural and politician traditions of the respective national (Wan Ismail, 2007). Given the complexity, difficulty of the innovation phenomenon, it is increasingly evident that the cultural perspective might be prevalent for understanding innovation (Jaskyte, 2004). Subramanian and Nilakanta (1996) have posited that organizational characteristics of innovative organizations are different from those of non-innovative organizations. Therefore, innovative organizations need to adopt a "culture of pride and climate of success" (Kanter, 1983). Consistent with this, Tushman and O'Reilly (2013) perceived culture as one of the most important elements in the management of innovation which can increase performance level. Hence, successful operation in business environment is required to understand the values driven from the culture of the organisations.

Innovation culture is a multi-dimensional context including the intention to be innovative, the infrastructure to support innovation, the necessities behavior to influence a market, the value orientation, and the environment to implement innovation (Dobni, 2008). Taking this into account, to nurture and sustain a culture of innovation, Malaysian SMEs need to have a more participative management style. This situation could be achieved through optimal communication and network as well as tolerance in flexible structure, empowered employees, risk taking, learning and knowledge. As such, it is imperative for the organizations to improve the innovation culture so that all the employees become alert, creative and innovative in maneuvering the organization (Škerlavaj et al., 2010). As the innovation culture plays important role in performance enhancement, the current study proposes that SMEs innovative performance can be enhanced through the innovation culture of the organisations. Thus, based on the above discussion, the study postulates the following proposition:

**Proposition 2:** *Innovation culture can have a positive influence on innovation performance of Malaysian SMEs.*

The influence of organizational learning on innovative performance has been proved in the previous studies (Salim & Sulaiman, 2011). Thus, the current study believes that organizational culture plays a mediating role in this relationship. Nevertheless, the investigation on this relationship is overlooked in the previous literature. In the same vein, Huang and Li (2009) have posited that organizational learning is very crucial in an organisation because it may inculcate innovation culture among the employees. The literature provides a very strong link respecting the relationship between innovativeness and culture. For instance, it is argued that levels of innovativeness in an organization are associated with cultures that focus on learning development, orientation, and participative decision making (Hurley & Hult, 1998). Further, a crucial part of innovativeness is the innovation culture related by organizational learning in order to enhance innovative performance (Jiménez-Jiménez & Sanz-Valle, 2011). Hence, organizational learning, concerning on information acquisition, interpretation, and behavioral and cognitive may lead to enhance the innovation performance through filtering role of innovation culture. In terms of Malaysian SMEs, it should be noted that innovation is imperative for them as the economic development depends on the industrial growth base on innovation activities and social development (Zeng et al., 2010). Thus, SMEs are moving away from focusing on cost reduction and directing towards innovation for long term success (Alam & Yasin, 2010). In this respect, innovativeness is required as an organization's tendency to support new

ideas, sharing knowledge, novelty, and creative processes resulting in new products and services development (Certo et al., 2009; Madhoushi et al., 2011). Based on the above discussion, it can be proposed that:

**Proposition 3:** *Innovation culture mediates the relationship between organizational learning and innovation performance among Malaysian SMEs.*

## 6. Methodology

This study will utilize the mixed methods strategy of exploratory sequential design as suggested by Clark and Creswell (2011). It can be conducted through two phases. First, an interview will be carried out among SMEs to obtain a “fresh” view of their experiences in managing their business, in particular factors affecting their involvement in innovation in order to improve business activities. Morse and Richards (2002) have argued that employing a qualitative approach is appropriate if the purpose is to learn from the participants in a setting or process the way they experience it, the meaning they put on it, and how they interpret what they experience (p. 28). Data obtained from this preliminary on-site interview can help us to modify the framework on innovation culture accordingly if necessary as well as to develop/refine the survey instrument based on the local context.

At the second phase, a quantitative study will be conducted to test and generalize the initial findings suggested by Clark and Creswell (2011). Then the researchers will interpret how the quantitative results build on the initial qualitative results. In this quantitative phase, data will be collected by means of self-administered questionnaires which will be distributed to Malaysian SMEs via purposive sampling. The respondents will consist of business owners of SMEs operating in Peninsular Malaysia. The inclusion criteria for organizations are (1) the organisation which is classified as belonging to an innovative sector; (2) the organisation must have less than 150 employees for manufacturing sector and less than 50 employees for service sector; and (3) the organisation must be a stand-alone firm, not a franchise or part of a larger organization. The survey questionnaire will be designed in two languages namely English and Malay. Participants will be invited to respond to the questionnaire in the language that they are most comfortable with and commonly uses in their daily work.

For the purpose of this study, the first phase of data collection was conducted. The study embarks on initial stage by conducting interview to get the preliminary information on the research field. The participants were five SME business owners operating in the Northern area of Malaysia. The objective of this first phase study is to see whether the SME business owners in Malaysia understand the concept of innovation culture and innovative performance. The research tool was an individual, semi-structured interview conducted with SME business owners involving with manufacturing activities. In the interviews, respondents were asked to comment on various aspects of their approach to managing their businesses.

## 7. Findings

In Malaysia, as in many other developing countries, the innovation practice is still at an early stage of development. As the network system prevailing in developing countries is crude and fragmented, the scope of innovation is limited. In general, the problem is confounded by a vicious circle in which the absence of a coherent network constrains policy implementation. The findings of this initial study highlight the basic issues pertaining to innovation culture, the role of organisational learning in fostering the culture and the innovative performance from the perspective of internal and external factors. This will offer valuable preliminary insights on the issues of innovation culture and performance that the developing countries confront.

### 7.1 The Concept of Innovation Culture

An innovation culture is known as a multi-dimensional context which comprises the intention to be innovative, the infrastructure to support innovation, operational level behaviors necessary to influence a market and value orientation, and the environment to implement innovation (Dobni, 2008).

This concept is not new but the innovation is often expressed through behaviors or activities that will be connected to a tangible action or outcome. For instance, this includes the implementation of ideas surrounding new product/services or alteration to existing ones, restructuring or cost savings initiatives, enhanced communications, new technologies (technology/research and development based), unique employee behaviors (behavioral based), or organizational responses that lead to incremental innovation. Two of the SMEs owners claimed that the concept of innovation culture is

very difficult to digest but it is very important for SMEs to embrace this concept. As one SME entrepreneur within the field of food and beverage mentioned:

*'Innovation culture must include culture that leads to the enhancement of competitive performance....' (translation).*  
*As also stated by entrepreneur owner of a designing and information technology company:*  
*'Innovation culture needs to be examined if we want to encourage employees to be innovative and it is not easy'.*  
*(translation)*

The other SMEs entrepreneurs posit that innovation culture is the process of cultivating and nurturing the environment of creativity, originality and innovativeness. However, it is very difficult to achieve. This is described as one of the SME respondents from the field of packaging.

*'To cultivate innovation culture requires long term effort and commitment. It does not happen overnight...'* (translation).

This statement is supported by two business entrepreneurs.

*'Innovation culture is new and many employees resist to this and having innovation culture is the biggest impediment to develop new knowledge..(translation).*

## 7.2 Organisational Learning and Innovation Culture

Many SMEs realize that they have to consistently and continuously seeking for new ideas, knowledge and abilities in order to outperform their competitors. In this respect, many SMEs agree that the organisations' ability to learn faster than competitors is a crucial source of competitive advantage and they need to embed this practice as part of their organisational culture. A remark stated by three of the respondents:

*'To learn new things is a must and it is an activity in which we can find new initiatives to increase the performance of our company'. (translation)*

Moreover, as mentioned by one SME respondent:

*'Organisation that is able to excel in its operation is the company that wants to learn new things, get new ideas and transfer this to others'... (translation).*

The respondent further mentioned that:

*'If the company is over and over again producing new ideas and generate best practices as well as disseminating these to the employees, gradually the employees will consider this situation as their norms..'(translation).*

From here, it is obvious that when the SME owners are willing to put in commitment in searching for new knowledge and embark on efficient use of the knowledge resources, they are establishing organisational learning as a cultural aspect that concentrates on the process of enhancing insights, knowledge and understanding to improve the performance of the company.

## 7.3 Innovation performance

Innovation enhances the economic growth and is the centre of attention for SMEs in the Malaysian Third Industrial Plan (MITI, 2006). The ability to innovate and continuously competent to upgrade the products and services are important in configuring the SMEs competitiveness. Many SME owners have the same opinion that innovation is very critical but to have a full force innovation is not straightforward. According to one of the respondents that:

*'To embark on innovation requires a lot of effort and to proceed with radical innovation for SMEs is still long way to go'. (translation).*

However, in the words of one of SME participants,

*'Of course we have innovation but we start with incremental innovation which are small improvements on our process*

*activities, packaging, services or perhaps minor products extension' (translation).*

Another interesting comment stated by the respondent in terms of innovative performance is that:

*We practice incremental innovation such as the improvements/expansions of existing products, services, processes, technical or administrative conditions but we will strive to go for radical innovation if we have the capacity'. (translation).*

The findings revealed that SMEs in Malaysia are likely to focus on incremental innovation and this finding contradicts to the stereotype belief that radical innovation is generated by SMEs. In this respect, innovation which ranges from the intention to be innovative, to the capacity to introduce some new products, services or ideas through the introduction of processes and systems can lead to enhanced innovative performance.

## 8. Discussion and Conclusion

The present study proposes a framework on how to enhance innovative performance in Malaysian SMEs. In this framework, innovation culture plays a mediating role on the relationship between the dimensions of organizational learning and innovative performance. The framework suggests that three dimensions of organizational learning namely information acquisition, information interpretation, and behavioral and cognitive is essential to helping SMEs improve innovation culture among employees. Since organizational learning is about sharing knowledge and information among people, it can encourage people to create new idea for new product development. Having such a platform could enhance SMEs in accepting innovation and finding a new method in their business process. So that, SMEs may get benefits from the innovation culture in the competitive environment.

The ability to have innovation culture enables SMEs to react in a way that will secure their competitive position in a turbulent market. SMEs can utilize the benefits of innovation culture to enable their business operation to run creatively, efficiently and achieve desirable performance. Having the culture for innovation, people can share their information among each other's. Through sharing information, the level of generating new idea will be increased. However, interpreting the collected information should be in such a way that people can easily understand and increase their knowledge. Without a doubt, people behavioral and cognitive play a prominent role in having culture for innovation which can lead to an innovative performance.

In order to obtain support for the proposed framework of innovation culture among SMEs in Malaysia, the current study took an initial preliminary study by interviewing five SMEs business owners from various sectors. The results of the interview clearly showed that the concept of innovation culture is the core of innovation. It would be the one in which entrepreneurs are motivated and confident enough to continuously try new things out. To this end, an entrepreneur would be equipped with the right types of knowledge, skills and abilities to effectively generate and implement new ideas. However, innovation will only flourish in long term because to nurture innovation requires full commitment of the business owners to overcome the employee resistant to change. Managing innovation is about creating a culture in which new ideas are generated, valued and supported and achieving such an "innovation performance" status is not an easy task without a proper road map or strategies being outlined and put into practice.

To move towards a holistic model of innovation culture, the element of organisational learning is very crucial in which the results revealed that the development of new knowledge and although it is difficult to attain, it has the potential to change behavior of the employees. In fact, SMEs owners that have developed a strong learning culture are good at creating, acquiring and transferring knowledge, as well as at modifying behavior to reflect new knowledge and insights. Most importantly, the SMEs must be able to convert words into action.

Based on the preliminary study, it can be deduced that organizational culture may affect innovation and can make it pervasive or rare in different parts of organizations (Sharifirad & Ataei, 2012). In fact, organisational culture may stimulate or kill creativity and innovation if the culture is not properly nurtured. A crucial part of innovativeness is the cultural openness to innovation which is evidenced by the connection of organisational culture and organisational learning with innovation. Innovation culture is concerned with the cultural attention needed to recognize the need for innovative performance.

In order to enhance both theoretical and practical significance of the research, future studies should use both qualitative and quantitative methodologies and a greater variety of research tools. Therefore, presenting the findings of the preliminary study to the SMEs owners will provide fresh outlook that they need to embrace the concept of innovation culture in order to shift from traditional method of operating business to innovative ways of doing business.

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