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INNOVATION CAPABILITY, AND SME'S PERFORMANCE IN MALAYSIA, MEDIATE BY DISRUPTIVE TECHNOLOGY

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ABSTRACT

The research aim to explore and examine the relationship between innovation capacity (IC), and firm performance (FP) mediated by disruptive technology (DT) among SMEs in Malaysia. The approach of this study is quantitative, and data used to test the hypotheses were gathered from 150 firms located within the state of Selangor. This research utilized "Partial Least Squares Structural Equation Modeling" (PLS-SEM) to establish validity and reliability of measurement model and test the relationships among the study variables. The results show a positive and significant relationship between innovation capacity and firm performance mediated by disruptive technology. Owner-manager of SMEs should emphasize innovativeness and adoption of disruptive technologies to ensure an overall better firm performance.

Keywords: innovative capacity, disruptive technology, SMEs' performance, Malaysia

INTRODUCTION

The thriving world's economic growth over the last few years has been aided and spurred by, the contributions of small firms in every country (OECD, 2008, 2015; EIM, 2010). Based on considerable contributions by the SMEs to the development of a country, many countries including Malaysian government had put in place various types of schemes, incentives, campaigns, assistance,

and programs to further encourage more people to get involved into entrepreneurship particularly in SME sectors and enterprises. Despite increase of establishment, failure rate of these establishment are equally at alarming rate. In his research, Van Praag (2003) stressed, whilst the number of establishments is high, the survival of these firms is questionable. Many past surveys carried-out the world-over indicated high mortality or failure rates amongst SMEs, revealing closures, especially within the first five (5) years of their business operation (EIM, 2010 & US SBA, 2014).

Malaysian's SMEs contribute between 30% - 53% of the gross-domestic-product (GDP) and 19% - 31% of export (SME Annual Report, 2014/15). Aside from generating income and employment, SMEs also has a crucial role in gender and youth empowerment, as well as, addressing urban and rural poor through entrepreneurship promotion. Hence, the member states depend significantly on SMEs for their economic growth and development. Owing to the importance of SMEs in the development of the nation's economy, the performance of SMEs has constantly become a center of interest among the researchers, academicians, universities, entrepreneurs, investors, trade organizations, and government agencies. Gartner & Shane (1995) and Thornton (1999) found that, the entrepreneurship is a growing phenomenon. Sathe (2003) further reveals that, the economy of the new world is entrepreneur oriented with the creation and rise of new businesses, hence hailing these entrepreneurs as the new champions of economic development and competitive enterprises. Since the 1990's, strong emphasis on innovativeness for competitiveness and ensuring long-term survival has be reported by many researchers (Ancona & Caldwell, 1992; Kim & Mauborgne, 2007), which suggest that, managers at every level has to be anxious and be concerned about promoting innovation. Many existing and current researchers agreed that, managing innovation is essential for the survival of the businesses. The main objectives of this research understand what ticks and what works that need embracement and adoption by SME to ensure survival and growth and minimize mortality rate.

PROBLEM STATEMENT

Small Medium Enterprises (SMEs) in Malaysia have to face several challenges, especially in the light of changing global markets, including the ability to compete globally and move up the value chain (UNDP, 2007). According to Avermaete, Viaene, Morgan and Crawford (2003), innovation

is essential for small firms, since they need to continuously to introduce new products, develop new processes, make chances in organizational structure and explore new markets. Despite large number of SMEs in various sectors and industries, mortality rate of these firms are high too. Upon in-depth research of Malaysian SMEs' mortality and that the failure rate of SMEs are equally severe. In year 2015 the numbers of companies wound-up increased by 35.5% to 2,363 companies compared to 1,744 in 2014. A total of 2,107 companies were affected through voluntary action by members and creditors, whilst the rest were wound-up by court order. Based on Table 2, a total number of 2,851 companies (2012: 2,419 companies) were wound-up in 2013. The number of companies dissolved through the "striking-off" process increased from, 29,180 in 2014 to 30,643 in 2015, representing an increase of 28.5%, (SSM, 2015). A total of 8,996 applications for striking-off were submitted voluntarily while the rest were initiated by the Registrar to remove dormant companies.

Table 1. *SME: By Sector in Numbers.*

Sector	Total Establishments (a)	Total SMEs (b)	Percentage (%) of SMEs over Total Establishments (b)/(a)*100	Total Employment by SMEs
Overall Total	**662,939**	**645,136**	**97.3**	**3,669,259**
Services	591,883	580,985	98.1	2,610,373
Manufacturing	39,669	37,861	95.4	698,713
Agriculture	8,829	6,708	76.0	78,777
Construction	22,140	19,283	87.1	275,631
Mining & Quarrying	418	299	71.5	5,765

Source: SMECorp, (2016).

As reflected in Table 1. 97.3% of the firms were SMEs and this amounted up to 645,136 registered small companies in the country.

Table 2. *Winding-up and Striking-off of companies.*

Years	2015	2014	2013
Companies wound up	2,363	1,744	2,851
Companies Struck-off (S. 308)	30,643	29,180	23,849

Source: SMECorp, 2016.

Based on Table 2, a total number of 2,851 companies (2012: 2,419 companies) were wound-up in 2013.

Table 3. *Termination of Business*.

Year	No of Companies
2010	19,973
2011	20,121
2012	20,380
2013	18,161
2014	29,966
2015	35,450 (increased 31.5%)

Source: SMECorp, annual report 2016.

As shown in Table 3, 'Suruhanjaya Syarikat Malaysia's (SSM) records shows that, on an average, the number of businesses terminated per year over the last three years (2013 - 2015) stands at 26,859 (2014: 21,800) firms, which shows a 23.2% increase in the number of small businesses that were terminated (SSM annual report, 2015).

Contribution towards Malaysian economy in terms of GDP, job employment opportunities, productivity and value-added offerings are drastically affected by the high failure rate of SMEs in the country. The poor and weak performance of SMEs would further produce problems (economic and social issues) in regard to inflation, job unemployment, retrenchment and subsequently, bankruptcy of businesses, which could equally results in social illness and unrest. Reasons for firm's terminations and shutting-down problems encountered by the SMEs, as discovered by Siringoringo *et al.* (2009) found that, it is due to concerns and challenges related with either the followings factors; - obtaining external financing, issues of sales and marketing, problems with general management and internal financial management. Ali Salman Saleh & Ndibisi (2006) & Mohd Khairuddin Hashim (2007) draw attention to the shortage of resources which affects the firm's performance. Lucky & Olusegun (2012) stated low productivity, lack of managerial capabilities, access to credit, difficulty in accessing technology and heavy regulatory burden against SMEs. Gilmore *et al.* (2006) highlighted similar findings, that is, resource constraints and limitation being key factors and recent findings by SMECorp (2014/2015) highlights weaknesses such as; - management and technology capability constraints, limited e-commerce and internet marketing, low value-add and not competitive, limited R&D and technology adoption, to name a few. Despite having various government assistance and programs targeting the new entry SMEs, the failure rate is getting higher (Chong, 2012). Findings also suggest that reason for SME closure is equally due to the fact that SME owners are not aware of the business challenges for SMEs in digital era (Thestar, 2017), industry revolution known as industry 4.0 (New Straits Times, 2017). The gaps observed from various studies are, the lack of investigations in Southeast Asia and in Malaysia on;- i) Innovative Capacity, consisting of all four (4) dimensions such as, Product innovation, Service Innovation, Marketing Innovation and Organizational Innovation, and its effect on SMEs performance, ii) Disruptive Technology and its effect as a mediator, as well as, explaining the relationship between innovative capacity and SME performance.

LITERATURE REVIEW

The word performance is not new, despite the frequency of usage yet, its meaning is relative. In many small business literatures, SMEs performance has been researched upon by a number of researchers and that most research investigating SMEs performance with a varied number of variables. Moullin (2007) states that, SMEs' performance is seen and viewed as, how firm delivers value to its stakeholders, as well as, their customers. Similarly, Neely *et. al.*, (1995) states that, firm performance is a concept often discussed in studies, yet has no single definition. Firm performance may be defined as the process of quantifying activity and action of firm which leads to achievement of its goals and objectives, through satisfying its customers and stakeholders. These achievements are through an efficient and effective performance of business operation as compared to its competitors (Neely, 2005). Therefore, firm's performance can be defined as the measurement of how well its goals and objectives are achieved (Penrose, 1959). This study defines SMEs firm performance as the ability of firm to effectively and efficiently exploit available resources to ensure survival yet fulfill customer satisfaction and contribute towards creation of employment. According to Alenka (2014) on 'Determinants of SMEs performance' at the 7th, international scientific conference, New York, argues that attitude of owner-manager of firms is an important factor as well, and goes to suggest that, entrepreneurs who are open to ideas and views, are individuals with positive mental strength that has three (3) dimensions;- i) engages in learning, ii) in search of and for novelty, and iii) constantly seeking feed-backs.

Innovation Capacity

Findings of few researchers (Rosser & Taylor, 2008; Galston, 2010; Heffes, 2009; US SBA, 2009), strongly advocates that, strengthening and expanding small business's innovative capabilities has to be top priority, in order to, address the decline of U.S.'s leading role in technology due to lesser employees, and entrepreneurs embarking on professions in engineering, mathematics and competitive science technology. As stated by Blau (2009), in order to boost and assist small business and new or young startups to build-up innovative capacity as a solution towards closing of its research gap with the United States, the European Commission designed and approved the European Union's (EU) Small Business Act in 2008. This positive development was further emphasized

by Barba-Sanchez & Martinez-Ruiz (2009) on European small business contribution towards social-economic and regional development. Mayanyn & Maria (2016), as in their research through literature review on innovation argues that, innovation does not necessarily involves' high technology or a great amount of economic resources.

Innovation is about doing things differently and producing a positive impact on products or processes. Innovation is the realization of something new. It is a product, a process, a marketing method or even an organizational change to make a difference and improve the activities of the enterprise. It adds value for the customer. This improvement ultimately will have a positive economic impact within the organization. Implementation of innovation strategies is not an easy task for MSE (Micro & Small Enterprises), as they face limited access to technology, and to economic resources. Finally, for innovation to flourish, Kalin (2014) wrote that, it requires an 'intensive networking practices' which includes partnerships and joint research with laboratories and the universities. It entails a practice of developing an ever-expanding network of knowledge and technological capabilities and that, these small innovative firms are patent-intensive, which provided a competitive edge ensuring partnership and growth.

In view of all that has been mentioned so far, one may suppose that, innovation and innovativeness either directly or indirectly affects firm's performance positively and that, innovation comes in through varying approaches, and are subject to entrepreneurs and firm's strategic orientation.

Disruptive Technology

Christensen (1997) concluded that, disruptive technology (DT) is termed for, an emerging technology out of a specific and niche market that, becomes dominant thus disrupts the stable-state of a market and often affect and force-out, existing leading and incumbent firms out of the market. Disruptive technology (DT) is a term coined and introduced by Joseph L. Bower and Clayton M. Christensen in year 1995, and that DT has since been popular item of research. Features and benefits of newer emerging technologies according to Adner (2002), are often valued by the customers, generally for its most critical performance significance or value (Paap & Katz, 2004; Danneels, 2004; Sood & Tellis, 2005; Carayannopoulos, 2009) mainly for the risk DT pose towards established and

market leading companies. Table 1.4 below shows a few examples of disruptive technologies of the past 30 years.

Table 4. *Few examples of Disruptive Technologies.*

Dominant Technology (Incumbent)	**Disruptive Technology (New entrant)**	**Disruptive Attribute**	**Period of Disruption**
ARPANET / Facsimile / Telegraph	Internet	Scale-free networks, Fast, Cheap	1980's
Workstation/Typewriter /Television	Window Operating System/Personal Computer (PCs) /Laptops	Cheap, for everyone, Weight	1980's
5.25-inch disk drive	3.5-inch disk drive/Thumb-Drive	Size, Weight (laptops), Mobility	1980's
Chemical Photography	Digital Photography	Capacity, Development	2000's
Compact Cassette	Compact Disc	Sound quality, Capacity	1990's
Discman	Mp3 players	Portability, Capacity	2000-2005
Internet	Mobile Internet /WiFi	Real-time, Seamless connection, Inexpensive	1998 onwards (3G network)
Public-Phone/Telecoms /Cell or Hand Phone/Pocket camera/Calculators	Smart Phone	Integration of video, Camera, Voice and Communication.	1980's-1990-2000's

Source: Data comes from various source in magazine, books, and, online, (2017).

From the table 4 above, disruptive technology is constantly evolving and that, these technologies are altering the way businesses are conducted at home and

across borders, further adding value to firm's existing offerings resulting in better efficient and effective business operations, lowering cost and enhancing performance and profits. As pointed-out by Dominic & Wilhelmina (2012), the Internet is one of the technologies that, consumers and businesses are aware of and are making use of. In my opinion, it may not be broadly recognized, but in today's modern world, the Internet is the key to successful business operations. Therefore, it is imperative that many business owners should utilize the Internet instead of using conventional and traditional methods. SME owner need to be aware of the up-to-date technologies available for consumption for their businesses, which provide varied benefits, such as, utilization of these technology lowers cost, increase efficiency, and ultimately enhance quality of products and services.

Despite the glaring facts and figures, most people are ignorant of recent technologies that could be used in their businesses. Challenges faced by SMEs, it can be concluded that business failures are subjected to varying factors, such as innovative capability, and technology adoption (SMEcorp, 2014/15) due to the advent of information technology and significant technological advancements contributed by industry trend and revolution known as industry 4.0, evolution in the digitization and automation of processes.

The literature presented above leads to the development of the following hypothesis: -

H1: There is a relationship between Innovative Capacity and SMEs Performance - (Innovative capacity – SMEs Performance).

H2: There is a relationship between Innovative Capacity and Disruptive Technology - (Innovative Capacity – Disruptive Technology).

H3: There is a relationship between Disruptive Technology and SMEs Performance - (Disruptive Technology – SMEs Performance).

H4: There is relationship between Innovative Capacity and SMEs Performance mediated by Disruptive Technology - (Innovative Capacity - Disruptive Technology – SMEs Performance).

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METHODOLOGY

A combination of descriptive and an inferential statistics method of data analysis were applied in this research. Descriptive statistics are employed to describe, summarize or explain a given set of data, whereas inferential statistics computed from a sample is to infer about the population concerned by making inferences from which the data were drawn (Singh, 2007). Upon collection of raw data, the respondent's questionnaire was coded and subsequently computed into the Statistical Package software for Social Science (SPSSv22 and SmartPLSv3) for data analysis.

The data used for this research were collected from owner-managers of 150 SMEs firms within the state of Selangor. Survey questionnaires of the this study were distributed through the following approaches; online survey via emails, postal mail with self-addressed stamped envelope, utilization of smartphone's application known as WhatsApp and participation in events conducted by SMECorp Malaysia.

Firstly, the researcher examined the impact of innovation capacity on SMEs' performance, disruptive technology, and disruptive technology on SMEs' performance, see figure 1.1

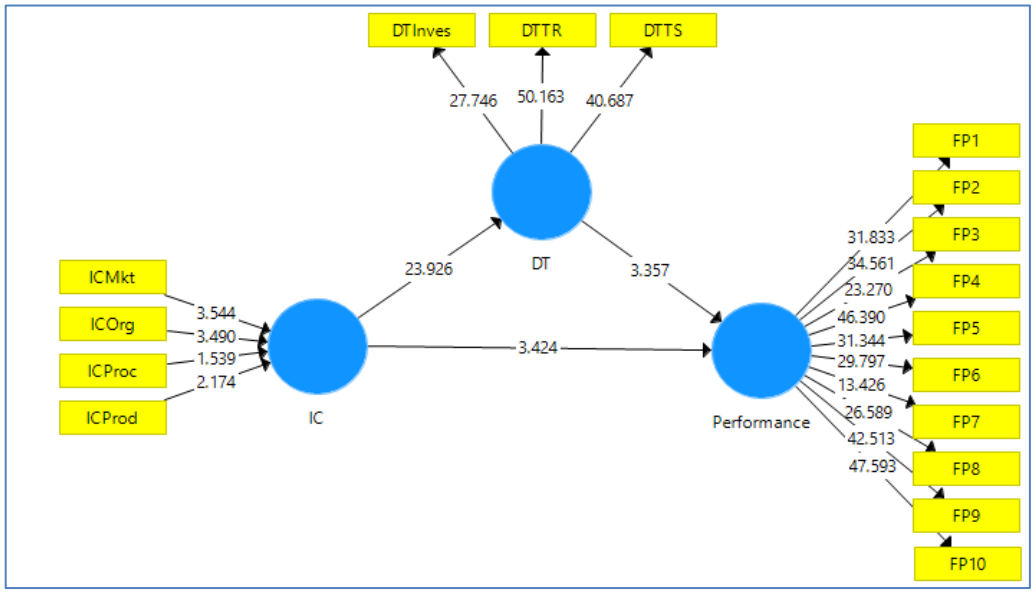

Figure 1. *Conceptual Model with Results*

According to the Table 5, The H1 is supported with beta 0.39, T-value 3.43, P-value 0.001 and effect size 0.11. Hence, it has been evidenced that SMEs having the innovation capacity significantly improves the SMEs performance in Malaysia. The H2 is supported with beta 0.76, T-value 23.93, P-value 0.00, and effect size 1.42. Thus, it is proven that SMEs corporations with innovation capacity significantly impacts on disruptive technology of SMEs Malaysia. The H3 is supported with beta 0.31, T-value 3.33, P-value 0.00, and effect size 0.07. Therefore, it is confirmed that SMEs corporations who routinely practice the disruptive technology significantly improve SMEs corporations in Malaysia. Whereas, the value of R^2 for SMEs' performance is 0.44 and 0.59 for disruptive technology, see Table 5. This result has proven that the conceptual model is sound and a reliable source to measure the SMEs' performance through innovation capacity and disruptive technology. Moreover, the SMEs' performance between innovation capacity and disruptive technology is also significantly enhanced when disruptive technology is mediated between innovation capacity and SMEs' performance, see Table 6.

Table 5. Direct Relationship Results

Path Coefficient Direct Relationship

Hypotheses	Constructs Path	Std Beta	Std Error	T-Test	P-Values	R^2	f^2	Q^2	Decisions
H1	IC --- FP	0.39	0.12	3.439	0.001	0.44	0.11	0.28	Supported
H2	IC --- DT	0.77	0.03	23.93	0	0.59	1.42	0.43	Supported
H3	DT --- FP	0.31	0.09	3.33	0.001		0.07		Supported

The researcher also analyzed the mediating role of disruptive technology between innovation capacity and SMEs performance. The results showed that H_4 is accepted as shown in the Table 6. From the mediation test, the researcher has confirmed that disruptive technology mediates the relationship between innovation capacity and SMEs performance with T value 3.37, P-value 0.001, and

associated confidence interval such as CI-LL 0.11 and CI-UL 0.39 showed in Table 6 below.

Table 6. Mediation Analysis Result

Hypotheses	Path	Std Beta	Std Error	T-Values	P-Values	CI-LL	CI-UL	Decision
H4	IC-DT-FP	0.24	0.07	3.37	0.001	0.11	0.39	Supported

DISCUSSION AND CONCLUSION

This empirical result matches with findings of previous studies that argue IC positively influences firm performance (David *et. el*., 2007; Enkel *et. el*., 2009; Mayanyn & Maria, 2016; Minna, 2014). The findings further validate the hypothesis and in general it provides further support for the assertion of the RBV as a theory on firm's strategic orientation by confirming the positive influence of the VRIN resources on the performance of firm. As mentioned in the literature review, innovative capabilities (IC) consist of interrelated components of product innovations, process innovations, marketing innovations and organizational innovations, these elements allow firms to be bold in taking business decisions in response to competitive environment, environment change, market orientation and or drive markets. Therefore, this study highlights the importance of SMEs to possess innovation capabilities, as better performance of the firm can be realized. In conclusion, the findings suggest that SMEs, in the context of Malaysia, have to possess innovation capabilities in order to help firm identify more business opportunities, expand market, create new market and opportunities and take business risk to achieve better performance. Further, it is acknowledged that, radical technology may be a source of competitive advantage to firms that successfully adopts it. Therefore, this statement similarly supports the assertion of disruptive innovation theory articulated by Clayton M. Christensen and Schumpeter, stating that up-to-date technology positively affects innovations in an organization which in turn produces better overall performance.

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