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**THE CHALLENGES TOWARD INNOVATION IN SMALL MEDIUM: A CASE  
STUDY FOOD AND BEVERAGE IN MELAKA.**

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This thesis is submitted in partial fulfilment of the requirements for  
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ii

## DECLARATION

I hereby declared that this thesis entitled  
**“THE CHALLENGES TOWARD INNOVATION IN SMALL MEDIUM: A CASE  
STUDY FOOD AND BEVERAGE IN MELAKA”**

is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in the candidature of any other degree.

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## ABSTRACT

Small and medium-sized enterprises (SMEs) make up for the majority of all enterprises in the Malacca and can thus be considered the economic backbone. To stay competitive, these companies must maintain and increase a high level of innovation. To learn more about the current innovations in SMEs and how to promote them. The group of respondent is from employee's food and beverage industry in Small-Medium Enterprise (SME) at Malacca and they will to answer the question about the innovation culture, leadership and employees expertise that can be factor to challenges toward innovation. This study will evaluate the challenges toward innovation in food & beverage in Small-Medium enterprise Malacca for education purpose.

***Keyword*** – *Innovation cultures, leadership, employees expertise, challenges toward innovation, Small-Medium enterprise, and food & beverages industry.*

## ABSTRAK

Perusahaan kecil dan sederhana (PKS) membentuk majoriti semua perusahaan di Melaka dan dengan itu dapat dianggap tulang belakang ekonomi. Untuk terus berdaya saing, syarikat-syarikat ini mesti mengekalkan dan meningkatkan tahap inovasi yang tinggi. Untuk mengetahui lebih lanjut mengenai inovasi semasa dalam PKS dan bagaimana untuk mempromosikan mereka. Kumpulan responden adalah dari industri makanan dan minuman pekerja di Perusahaan kecil dan sederhana (PKS) di Melaka dan mereka akan menjawab soalan mengenai budaya inovasi, kepimpinan dan kepakaran pekerja yang boleh menjadi faktor untuk mencabar ke arah inovasi. Kajian ini akan menilai cabaran ke arah inovasi dalam makanan & minuman di Melaka perusahaan kecil untuk tujuan pendidikan.

**Keyword** – *Budaya Inovasi, kepimpinan, kepakaran perkerja, cabaran terhadap inovasi Perusahaan kecil dan sederhana, Industri makanan dan minuman.*

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## TABLE OF CONTENT

CHAPTER	TITLE	PAGES
	<b>APPROVAL</b>	<b>i</b>
	<b>TITLE</b>	<b>ii</b>
	<b>DECLARATION</b>	<b>iii</b>
	<b>ABSTRACT</b>	<b>iv</b>
	<b>ABSTRAK</b>	<b>v</b>
	<b>ACKNOWLEDGEMENT</b>	<b>vi</b>
	<b>TABLE OF CONTENT</b>	<b>vii</b>
	<b>LIST OF TABLE</b>	<b>x</b>
	<b>LIST OF FIGURE</b>	<b>xi</b>
<b>CHAPTER 1</b>	<b>INTRODUCTION</b>	
1.0	Background of the Study	1
1.1	Problem statement	3
1.2	Research Question	3
1.3	Research Objective	4
1.4	Scope	4
1.5	limitation of the study	4
1.6	Key assumption	5
<b>CHAPTER 2</b>	<b>LITERATURE REVIEW</b>	
2.0	Introduction	6
2.1	Small-medium enterprise (SME)	6
2.2	Small-medium enterprise (SME) food & beverage industry	7
2.3	Innovation	8
2.3.1	Types of innovation	9
2.4	Challenges toward innovation in SMEs	10
2.4.1	Innovation culture	10
2.4.2	Leadership skill	11
2.4.3	Employees expertise	12

2.5	Theoretical Framework	13
2.6	Hypothesis	14
2.7	Summary	15

### **CHAPTER 3 RESEARCH METHODOLOGY**

3.0	Introduction	16
3.1	Research Design	16
3.2	Methodological Choice	17
3.3	Main Source of data collection	18
	3.3.1 Primary data source	18
	3.3.1 Secondary data source	19
3.4	Location of Research	19
3.5	Time horizon	20
3.6	Research Instrument	22
3.7	Sampling design	22
3.8	Scale of measurement	23
3.9	Statistical tool	24
	3.9.1 Multiple regression	24
	3.9.2 Statistics associated with Multiple Regressions	25
3.10	Pilot test	26
3.11	Scientific Canon	26
	3.11.1 Validity	27
	3.11.2 Reliability	27
3.12	Summary	28

### **CHAPTER 4 DATA ANALYSIS**

4.0	Introduction	29
4.1	Pilot test reliability test data analysis	30
4.2	Reliability analysis	33
4.3	Descriptive Analysis	34
4.4	Respondent demographic analysis	35
	4.4.1 Gender	35
	4.4.2 Age	36
	4.4.3 Occupation	37
	4.4.2 Working experience	38
4.4	Inferential analysis	39
	4.5.1 Pearson Correlation Analysis	39
	4.5.2 Multiple Regression Analysis	40



4.6	Hypothesis Test	43
4.7	Discussion	45
4.8	Summary	46

## **CHAPTER 5 CONCLUSION**

5.0	Introduction	47
5.1	Implication of Study	47
5.2	Limitation of study	49
5.3	Recommendation for future research	49
5.4	Conclusion	50

## **REFERENCES**

## **APPENDICES**

## LIST OF TABLES

TABLE	TITLE	PAGE
3.1	Table Grand chart	21
4.1	Pilot test Reliability statistic	30
4.2	Pilot test Reliability statistic	31
4.3	Pilot test Reliability statistic	31
4.4	Pilot test Reliability statistic	32
4.5	Pilot test Reliability statistic	32
4.6	Cronbach's Alpha Coefficient range	33
4.7	Case Processing Summary	33
4.8	Reliability Statistics	34
4.9	Table list gender	35
4.10	Table list Age	36
4.11	Table list Occupation	37
4.12	Table list Working experience	38
4.13	Correlation Analysis	39
4.14	Multiple Regression of Analysis	40
4.15	Anova	41
4.16	Coefficients	42

## LIST OF FIGURES

FIGURE	TITLE	PAGE
2.1	Frame work	13
4.1	Pie chart gender	35
4.2	Pie chart Age	36
4.3	Pie chart Occupation	37
4.4	Pie chart Working experience	38

## CHAPTER 1

### INTRODUCTION

#### **Title**

The Challenges toward innovation in Small Medium: A case study food and beverage in Melaka

#### **1.0 Background of study**

Nowadays, the numbers total SMEs in Malaysia 907,905. 3.5 percent from 907,905 are SMEs that established in State Melaka. 31,361 SMEs in Melaka (Annual Report SME Malaysia, 2016-2017). This research to take a look at the relationship between challenges toward innovation in Small-Medium Enterprises (SME). This research had a choice a case learn about in SME's at Malacca as the discipline to test this lookup. For small- and medium-sized organizations (SMEs), however, there is a strong fantastic relationship between innovation pastime (Golovko and Valentini, 2011). The contribution of SMEs to innovation and technological development is regularly emphasized, with examples such as Silicon Valley often stated as hotbeds of small enterprise innovation (Audretsch, 2002; Bresnahan and Gambardella, 2004). SMEs are generally understood to be hindered by means of barriers that are the equal in kind and magnitude regardless of their size, age, industry, ownership structure or strategic

positioning. While the cluster strategy is sensitive to SMEs, innovation policy in developing countries tend to focal point on giant firms concerned in high-tech industries, ignoring the wants of SMEs outdoor these industries and due to this fact failing to facilitate the recognition of their revolutionary potential. With noble exceptions innovation insurance policies appear nonetheless in its infant levels when it comes to the use of the cluster method as an instrument to support innovation in creating countries, in particular in clustered SMEs (Chaminade and Vang, forthcoming).

The SMEs innovative achievable is linked to their capability to exploit neighborhood clustering-effects (i.e. neighborhood linkages and interactive learning). It is recognized that to succeed, innovations depend on the ability of corporations to mix various factors that, consequently, generate challenges and boundaries and frequently end result in failure, due to the fact innovation is seen as something wonderful for them. This is regardless of the fact that the things to do of innovation often involve risk, with uncertain fees and besides concrete guarantees in phrases of returns (Koellinger, 2008; Ceccagnoli, 2009).

Because the procedure of innovation is complex, due to the unpredictability and barriers, and requires a sure set of capability, it is no shock that many innovation tasks are deserted or placed on standby. One of the quite a few unique methods to innovation concentrates on the principal barriers, i.e. obstacles, to innovation generally as perceived with the aid of the pinnacle managers of the firms. This method is once in a while extended to encompass factors motivating innovation, i.e. facilitators. The goal of the lookup on barriers is at first to find out about their nature, origin, and importance. It tries then to pick out their point of affect in the innovation process and to measure their results or consequences. The dimension of outcomes is the virtually difficult part. Barriers can be classified in a range of ways, a typical one differentiates between exterior to the firm or exogenous and interior or endogenous ones (Piatier, 1984)

## **1.1 Problem Statement**

Over the previous 25 years, numerous educational and government file have addressed the question of why small and medium organizations (SMEs) combat to compete for and win business with public quarter organizations. Focusing on SMEs' difficulties has helped direct scholarly attention to the contemporary kingdom of the public zone marketplace and what wants to alternate to make it much less skewed towards large business enterprise (e.g. Knutsson and Thomasson, 2014; Walker and Preuss,2008). SMEs face common issues in respect of their survival or to take competitive advantage. According to the accessible sources extra than 50% of SMEs are fall down inside first 5 years of operation (Reiss, 2006; Ahmad and Seet, 2009). It displays that SMEs in Malaysia are going through serious troubles and lots of barriers to stay as aggressive organizations in market. Malaysia is now entering into a knowledge-based economy. The task of globalization has made it quintessential for Malaysia to move closer to a knowledge-based financial system (Bhatiasevi, 2010). The instances illustrate how traditional industries or resource-based industries that tend to be omitted by using innovation (technology) insurance policies in Asia, have extensive conceivable in phrases of innovation.

## **1.2 Research Question**

This Research is aims to gain the focus point by following research question:

- 1.1.1 What is the perception towards innovation by Small-Medium enterprises?
- 1.1.2 What the current status is of challenges innovation in Small-Medium enterprises?
- 1.1.3 What are the challenges towards innovation, faced by Small-Medium enterprises?

### **1.3 Research Objective**

Based on research question answered, the researcher can find the main objectives:

- 1.1.4 To identify the perception towards innovation by Small-Medium enterprises.
- 1.1.5 To identify the current status of challenges innovation in Small-Medium enterprises.
- 1.1.6 To identify are the challenges towards innovation, faced by Small-Medium enterprises.

### **1.4 Scope**

The main scope is focused on the challenges toward innovation in small medium enterprises. The researcher was targeting the respondent which are industry food SMEs in Malacca.

### **1.5 Limitation of the study**

After running this research, several limitations have been found. First the lack of knowledge and less of experiences to do the research. The researcher try to find the good title based on the suggestion from supervisor, it difficult to researcher to decide which the best title is.

Second, researcher confusing to choice the good quality journal that can related with research title. The researcher has face difficulty to highlight which keyword that suitable can be factor for this research.

## **1.6 Key assumption**

The researcher excited to find out the challenge toward innovation in small medium enterprises. This research has be focus to specific factor which is the challenges faced by organization SME when their implement the innovation. This research try to identify what is barrier that organization faces to make sure the innovation can success.



## CHAPTER 2

### LITERATURE REVIEW

#### **2.0 Introduction**

Chapter 2, the researcher explained the theories and Theoretical Framework

#### **2.1 Small-medium enterprise (SME).**

In order to produce a theoretical basis for the study, the authors make the research based totally on the preceding studies on Malaysian SME literature. Other studies on SME Performance in Malaysia focal point on quite a number areas of management (Nurazree Mahmud & Mohd Faiz Hilmi, 2013). For instance, some studies on SME in area of marketing (Idar & Mahmud, 2011& Hakimpoor, 2011), According to the report, SMEs contributed as a lot as 37% of the nation's gross domestic product in the 12 months 2010 (new Straits Times, 10 July, 2009). Especially, when many other financial institutions who are also aggressively pushing their product in the SME lending business space, there are still plenty of opportunities 'if it is done right' (new Straits Times, 2017). Aside from these contributions, the SMEs sector in Malaysia is additionally acknowledged to make other precious contributions such as regional earnings generation, savings, training, stimulation

of competition, helping large firms, introduction of innovation, and as a seed-bed for increase (Mohd khairuddin Hashim, 1999).

Small and medium businesses (SMEs) are playing huge contribution in the economic development, social uplifting and political steadiness of each country. SMEs are various in nature. SMEs can be set up for any sort of business activities in city or rural area. It can be viewed as a lower back bone of country wide economic system (Peters and Waterman, 1982; Amini, 2004; Radam et al., 2008). In the Malaysian economy, the function of SMEs is regarded as the spine of the economy (Radam et al., 2008). However, in Malaysia, the definition of SMEs is normally primarily based on annual income turnover and the complete quantity of full time (Hashim and Abdullah, 2000, SEMCORP, 2008). The position of SMEs operating in the manufacturing area is considerably acknowledged. In Malaysia SMEs operating in the manufacturing area are normally concerned in activities such as processing and manufacturing of raw materials, for instance, textiles, food, beverages, wood, rubber, petroleum and the assembling and manufacturing of electrical and digital appliance, etc (Mustapha et al., 2011)

## **2.2 Small-medium enterprise (SME) food and beverage industry.**

The food industry is facing a duration of rapid change, pushed via globalization, trade liberalization, development of genetic, processing and information technology, mental property rights, adjustments in household shape and health and meals protection concerns. The food processing SMEs account a giant part of mainstream organizations in Malaysia (Hussain & Idris, 2010). In 2009, Malaysia's meals imports were valued at \$9.1 billion. Studies have recognized that the meals industry is presently facing a period of rapid change pushed by globalization, change liberalization, improvement of genetic, processing and facts technology, mental property rights, modifications in family structure and fitness and food safety concerns (De Silva & Takeda, 2005). On the different hand, the processed food merchandise have emerge as the choice of many Malaysians due to the amplify in their general of residing and buying power. The changes of Malaysians' way of life have resulted in an extend in the demand for convenience food and fitness food;

which in flip leads to revolutionary new products in the meals processing based SMEs in Malaysia. Two in such situation, innovation is considered as the key element to success in the growing world competitive environment (De Silva & Takeda, 2005; Ussman et al., 2001). It is one of the most powerful, but difficult activity in the sectors of SMEs in Malaysia as it is a system of introducing new goods or service or notably extended product to the aggressive market; that is, the new technological developments, new science based totally on the combination of current applied sciences or the utilization of other knowledge acquired through the agency (Lee & Ging, 2007; Lee & Lee, 2007).

### **2.3 Innovation**

Nowadays, the successful business most of them have the innovation product or service that can attract the consumer. The popular commercial enterprise press filled with success and failure tales of companies that face a surroundings characterized as fiercely competitive and ever-changing. Innovation is viewed a critical factor of enterprise productivity and aggressive survival (Zaltman, Duncan and Holbek, 1973). Technological innovation continues to hold tremendous opportunities for; 1) product innovation- the introduction of new types of items and services for the external market and 2) manner innovation – enhancement of internal manufacturing procedure for items and services (Perri6). The innovation also has improvement from the pervious process, good or service. The simple improvement also known as ‘innovation’. Foster and Heeks (2013, 335) outline inclusive innovation absolutely as ‘the inclusion inside some component of innovation of businesses who are presently marginalized’. Business mannequin innovation is more and more becoming a precedence for corporations globally in order to create aggressive advantage, but little is recognized about the nature and dynamics of such type of innovation in India (Chander Velu, Mahima Khanna, 2013). Innovation is usually regarded as an on-going strive to attain new and special know-how and thoughts (subramaniam & Youndt, 2005) to guide new enterprise approaches and results. Innovation has long been diagnosed as a key aspect of competition and dynamic efficiency of markets (Hall et al., 2009).

Innovators (product, system and organizational) ought to take market share from non-innovators and develop at their expense, till such time as their market function is undermined first, through imitations of new products and processes, and then, by way of but more modern products. In the long run, therefore, innovators will develop faster, be more environment friendly and eventually be more profitable than non-innovators (Crepon et al., 1998). Many of these research use some form of manufacturing feature method relating innovation (inputs or outputs) to something of performance, commonly productiveness (Roper et al., 2008). The survey also showed that firms that have grown their running margins faster than their competitors were setting twice as much emphasis on commercial enterprise mannequin innovation than have been beneath performers (IBM, 2008). For example, enterprise model innovations can assist rising economies enhance their efficiency in food industry and transport of services in key areas such as fitness care, power provision, meals security and nutrition (London and Anupindi, 2012; Radjouetal. 2012).

### **2.3.1 Types of innovation**

#### **Product innovation**

Product innovation emerge when a new product or a new range of a present product is added in the market area aiming at fulfilling a particular client demand. A top purpose of product innovations is to introduce new products and new product varieties that allow the firm to achieve at least a temporary monopoly position, which gives it a freedom to set costs above marginal costs. Given the necessary role of product innovation for the long-term competitiveness of companies in many industries and market. (S.Tavassoli, C.Karlsson/Research Policy 44(2015))

## 2.4 Challenges toward innovation in SMEs

### 2.4.1 Innovation Culture

Culture has a profound effect on innovation functionality of a society or an organization. Possession of effective cultural traits gives the enterprise with imperative components to innovate (Ahmed 1998). The literature on organizational innovation emphasizes the significance of culture as a most important determinant of innovation overall performance (Çakar 2006; Herbig and Dunphy 1998; Branen 1991; Feldman 1988). Standard innovation a multi-dimensional context together with the intention to be innovative, the infrastructure to guide innovation, the requirements behaviour to have an effect on a market, the cost orientation, and the surroundings to enforce innovation (Dobni, 2008). Malaysian SMEs want to have a greater participative administration style. This scenario ought to be completed through most suitable communication and community as nicely as tolerance in the bendy structure, empowered employees, risk-taking, mastering and knowledge. As such, it is fundamental for the businesses to enhance the innovation subculture so that all the employees turn out to be alert, innovative and progressive in manoeuvring the business enterprise (Škerlavaj et al., 2010).

In line with above discussion, innovation is viewed as a new paradigm which challenged the usual administration method and practices (Hamel, 2006). This is because, innovation fosters the adoption of new thought or behaviour which is new to the organization (Harkema, 2003). It can be a new product, a new service or a new technology developed via the organisation. Innovation additionally is the method of turning opportunities into a realistic use (Tidd, 2001) and can solely be realized when an employer adopts this procedure in its enterprise practices (Sharifirad & Ataei, 2012). Nevertheless, the exercise of innovation is not convenient to adopt without having the way of life that encourages the corporation to innovate. As such, an agency wants to foster the lifestyle of innovation in its everyday business activities.

## 2.4.2 Leadership skill

Hierarchical advancement or its reception can be influenced by the qualities of the association's initiative (Kimberly and Evanisko, 1981). leadership style inside an association impacts the "hierarchical procedures and vital decisions that influence authoritative advancement" (Elenkov and Manev, 2005, p. 383). Walker (2006) watched that leaders parts out in the open associations are of extraordinary significance in setting esteems and arrangement headings, and distributing assets for advancement (see additionally Grady, 1992). Experimental proof proposes that development out in the open associations regularly comes about because of best level choices made by government experts and senior chiefs (Boyne, Gould-Williams, Law, and Walker, 2005; Kimberly and Evanisko, 1981; Klein and Sorra, 1996; Walker and Jeanes, 2001). Similarly, in light of the productivity concentrated point of view on advancement, workers under a more grounded facilitative leadership, which is described as favorable and arranged to innovation (Cufaude, 2004), are probably going to have brought down levels of desire for development than those under the weaker initiative. Facilitative authority is portrayed by coordination, organization, and intelligent correspondence (Cufaude, 2004). Not at all like conventional order administration, which stresses charge and-control, is the facilitative initiative worried about coordination of association individuals with assorted perspectives. Facilitative leadership accept that the gathering, in general, creates preferable execution over any one individual, and in this manner, they participate in dynamic correspondence with different individuals and stress collaboration (Hensey, 1999). A good leadership is one factor for the success in the future for SME, and evidences suggest that inadequate leadership and management skills also can be as factors contributing towards the failure of SMEs (Razak, 2000, Davies et al., 2002).

### 2.4.3 Employees expertise

The employees' feelings of satisfaction to use innovation in service firms. There are three main point for employee perspective. First, the innovation has been focus attention on important for service firms' long-period survival and advantages, Miles (2000, p. 371) based on research, the traits studies of innovation in services as "being neglected and marginal". Second, the researches on innovative behavior in frontline jobs need more been discussed in the literature (Wong and Ladkin, 2008). Third, the specific literature has conceptually related with a person's positive high spirit to creative performance (Fredrickson, 2001). The effectiveness of human resource practices has big roles were the behavioral dimension of organizational learning and its relationship the subject of research carried out by Perez Lopez et al. (2005), who handle the studied companies in Spanish with more than 200 employees. Their main focus point findings show that good performance human resource practices and training about innovation have a positive impact on organizational learning section it also have turn has a positive impact on business to increases performance.

## 2.5 Theoretical Framework

The theoretical framework functions to interrelationships between two variable which is independent variables and dependent variables. For intense, the researcher designed that the independent variables as Challenges factor while the dependent variables as innovation.

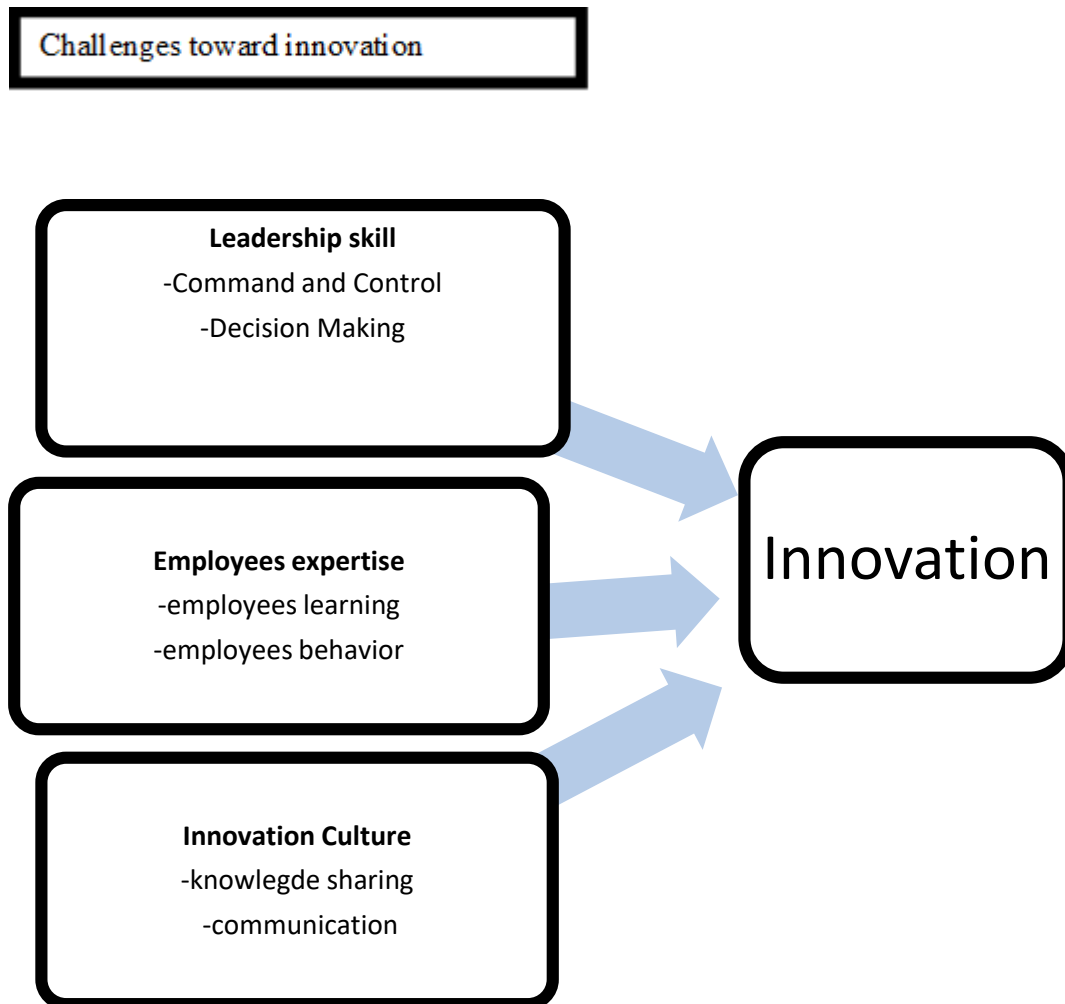


Figure 2.1 Frame work