

**ICBSI 2018**  
**International Conference on Business Sustainability and  
Innovation**

**INNOVATION IN SMEs CONTRIBUTES TO SUSTAINABLE  
GROWTH**

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*Abstract*

The focus of the study is on the innovation in small and medium sized enterprises (SMEs) that has the potential capacity for sustainability growth. It is reported that SMEs in Malaysia majestically occupies 98.5% of the corporation incorporated any study confining to innovation in SMEs would go a long way to contribute its rapid growth. Whilst, literatures indicated that product process innovation and organizational innovation are key in driving growth, innovation in knowledge amongst employees and senior stakeholders is equally if not more crucial in ensuring the sustained growth of any corporation. This study also focuses on the knowledge and technological innovations in one of the SMEs. Moreover, the methodology is quantitative of which interview was carried out personally. The findings reveal that the sustainable business growth is mainly due to the fiduciary accountability of directors and managers. They place more emphasis on innovation through generating new innovative ideas which are implemented in the processing of gloves. Also, incremental innovation is carried out in the context of quality products and fast production to meet the competitive market.

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**Keywords:** Sustainability, Innovation, SMEs, Malaysia, Knowledge.



## 1. Introduction

With the current economy of uncertainty and change of surrounding circumstances, corporations incorporated for business purposes prefer to have manageable size with optimum utility. Investors or entrepreneurs are constantly alert to what is prevailing in the market scenario, as each one of them would not prefer to compete in the emerging markets if the products are not saleable. In a healthy business environment, consumers should have access to quality and competitively priced products. This is viable if innovation makes a breakthrough in manufacturing sector particularly in the small and medium sized enterprises (herein before referred as SMES) would be able to sell their products internationally. It has the potential to create new markets, head for transformation and eventually filling the vacuum in global stage (Mueller, Rosenbusch, & Bausch, 2013; Nguyen, Chen, & Lee, 2014). Similarly, empirical studies on innovation revealed that corporations which actively engage in innovation are well assured of nurturing profit and better off in competitive market (Camisón & Villar-López, 2014; Wang & Wang, 2012).

In the context of Malaysian manufacturing sector, innovation in manufacturing corporations is not progressing fast due to overhead costs, inadequate knowledge, market and organisational factors. In terms of technological readiness, Malaysia comfortably occupies 51<sup>st</sup> position out of 144 countries and it is sceptical whether Malaysia can achieve her yardstick as a knowledge based nation by 2020 (Schwab, 2015). Consequently, SMEs in Malaysia encounters overwhelming issues notably to produce quality product with a reasonable price as compared to its competitors' products predominantly due to globalisation and inability adapt to the changing consumer behavioural patterns (Al Mamun, 2018; Anuar & Yusuff, 2011).

For SMEs to have a competitive niche and sustainability, it is imperative for them to engage in both technological and non-technological innovations (Al Mamun, 2018; Price, Stoica, & Boncella, 2013). Generally, countries having a higher percentage of innovation do have a higher quality of goods and relatively good economic returns in comparison to countries having a lesser innovation (Fagerberg, Mowery, & Nelson, 2004). In addition, any studies on innovation in SMEs would be beneficial on the basis of how innovation is carried out in production of goods, creating opportunity for the correct professionals to work, and engaging research for future market (Anderson & Eshima, 2011). To put things in correct perspective, fiduciary accountability of directors has the causal link to innovation which contributes to sustainable growth of a corporation (Anderson & Eshima, 2011).

Anuar and Yusuff (2011) concluded that SMEs in Malaysia were not innovatively inclined. The result of the study indicated that 270 corporations of that category scored very low after analysing eight indicators namely managerial skill, market sector, financial and non-financial, knowledge, education and fiscal policy of government. Additionally, the lack of innovation in SMEs can be attributed to lack of managerial skill absence of progressive business models and innovative products (Hashim, 2000; Odoom, Anning-Dorson, & George, 2017)

### 1.1. Innovation for Sustainable Growth

At present, corporations are facing challenges in the current market due to constantly evolving disruptive new technologies. To remain competitive, corporations have to seek various ways to innovate their brand value and market presence. Consequently, empirical research on innovation is abundant because

it encompasses various type of innovation namely radical, breakthrough, discontinuous and disruptive. These various innovation strategies have contributed in the theoretical and practical aspect of the corporations. However, SMEs are often unable to adopt the newest technology to seize new market opportunities as they are often constrained by their financial capacity. Additionally, investment in research and development alone will not be sufficient for corporations to respond to market changes as they will have to create internal capabilities to enter new markets (Kodama, 2017).

Incremental innovation engages in strengthening and utilising corporation capabilities by upgrading its activities through continuous, cumulative and improvement activities (Ettlie, Bridges, & O'Keefe, 1984). This form of innovation is rather low risk due to less capital involvement and the outcome adds further value to its existing products and technologies. In contrast, the radical innovation is radical and disruptive in nature, it possesses the capability to develop and introduce promising new business models and strategies to the market (Dewar & Dutton, 1986; Henderson & Clark, 1994; McDermott & O'Connor, 2003).

In the past, established corporations relentlessly endeavoured to innovate incrementally with new version of products into the market, thus ensuring the return of profit. Contrary to this, a significant pendulum shift in new technologies created new markets for quality products that were comparatively low priced which is the direct result of radical innovation or breakthrough innovations (Leifer et al., 2000; O'Connor & Rice, 2001). For corporations to reign comfortably in the market, radical innovation is functional because corporations have to search and look for opportunity in which new skill to replace outmoded skill with the latest know-how of production (Dewar & Dutton, 1986; Ettlie et al., 1984; Green, Gavin, & Aiman-Smith, 1995).

It is not a perpetual cycle for the corporations to embark on new venture, primarily due to market uncertainties, products obsolescence, resource scarcity, costly technologies and financial prudence by stakeholders. Studies revealed that some corporations, despite being able to alleviate these problems, lose the appetite to continue to innovate in the long term (Leifer et al., 2000). Seeking new capabilities for radical innovation is not straightforward because the management or the Board of Directors has to get committed in the management and accountable to the stakeholders. Such is, of course, not same to the incremental innovation because the resources allocated is not large in comparison with radical innovation. (Kodama, 2017; O'Kelly & Tushman, 2004; Vanhaverbeke & Peeters, 2005). Insofar incremental innovation is concerned, it comprises of learning, technologies, and restricting of organisation, sharing of innovative ideas, change of product design and selling products to consumer's perception would go long way of sustainability growth (Pappenheim, 2016). This is because incremental innovation is cost-effective and cost-saving, staying competitively and less destructive. Studies have indicated that incremental and radical innovation is suited for a large corporation, it provides otherwise as countries with low-wage exported quality goods globally by using incremental innovation (Nemet, 2010; Puga & Trefler, 2010). Strategic innovation occurs when a company identifies gaps in the industry positioning map and thereafter make it to fill a gap and it is this gap which eventually becomes a lucrative market (Markides, 1977). In other words, corporation strive to strategies its products, services and new business model to have a competitive advantage.

## 1.2. SMEs and Innovation

The growth of economic productivity which was once dependent upon large corporation is changing currently as SMEs are taking a leading role not only in the employment sector but also in enhancing the increase of gross domestic products. In Malaysia, the micro business occupies 77% of the total corporations incorporated followed by small business at 20% while medium sized corporations at 3% respectively (Hashim, 2015).

Furthermore, the characteristics of SMES is not large as the size is kept with minimum bureaucracy and such corporations seek innovation to meet challenges. This positions SMEs to market its products locally and globally. In this respect, Rogers (2003) asserted there are no corporations without challenges and to overcome them, directors try to alleviate it by means of engaging innovation in specific areas. Since SMEs are in a manageable size as opposed to large corporations, there are studies on the antecedents of firms which indicated that this has a positive effect on innovation (Leenders & Chandra, 2013; Walker, 2014).

Consequently, corporations wish to engage in innovation has to adopt and adapt to new and innovative ideas to produce the newest and customary satisfaction products in the market (Rubera & Kirca, 2012). Literally, the terminology of what is new to one corporation could be akin to another firm and any innovation geared by the corporations would not be similar. Also, product innovation could arise from the existing product in which new products are improvised with quality ingredients and qualifying patent status (Gopalakrishnan & Damanpour, 1997; Leifer et al., 2000). Innovation also embodies in the area of processing of manufacturing, packing and mode of delivery with inclusion of high-technique, digital machineries, knowledge-sharing of innovative ideas and instantaneous advertisement which is easily reachable to the masses (OECD, 2005).

Given the present state of economic downturn, corporation hopes to achieve sustainable growth by leveraging innovation. The outcome for the SMEs is to sell the innovative products in the competitive market and this could be done through innovating products to the customers' choice (Walker, 2014). It is without doubt any change of technology has positive impact on corporate performance which puts the corporation in competitive advantage, and thus positioning its products favourably in the market (Calatone, Cavusgil, & Zhou, 2002; Du & Farley, 2001; Garg, Walters, & Priem, 2003; Tomas & Ketchen, 2001; Wu, Vijay, & Sridhar, 2003).

However, the bulk of research done is more of conceptual in nature, focusing on a single aspect of innovation instead of studying other aspects of innovation which can determine the corporation performance. To date, there are series of studies comprising of the process innovation (Baba, 2012; Itne & Lareker, 1977; Markides, 1977; Olson & Schwab, 2000; Whittington, Pettigrew, Peck, Fenton, & Conyon, 1999) and product innovation (Atuahene-Gima, 1996; Han, Kim, & Srivastava, 1998; Li & Atuahene-Gima, 2001; Subramanian & Nilakanta, 1996) which contributed to the literature of innovation more on the relationship between innovation and corporate performance; but there are studies indicating otherwise, notably being there is no relationship or connectivity (Chandler & Hanks, 1994; Subramanian & Nilakanta, 1966).

## **2. Problem Statement**

Since innovation on process and product are studied, a study on innovation such as technologies, an innovative idea generated among employees in SMEs would be worthy of study. The present global trend, entrepreneurs wish to incorporate small and medium sized corporation to avoid bloating costs which dissipates the profitability.

Although there are some big manufacturing establishment in this country, interestingly, SMEs constitute a total of 98.5% of the corporations with a steady growth of 5.2% per annum (Statistics, 2017). Recently, researchers studied innovation of SMEs in the state of Johore in which the findings revealed that processing mechanism is innovated, product and organisation contributed to positive financial performance (Kim-Soon, Ahmad, Kiat, & Md Sapry, 2017). However, the study did not explore transmission or sharing of innovative knowledge among their peers as well as those in the management. Sharing of innovative ideas is fruitful for the corporation development in terms of improving production with existing technology as existing process could be reinvented using innovative ideas by the employees. In a recent study, strategic innovation is innovating new business which is primarily necessitated at the present competitive market (Govindarajan & Trimble, 2005; Kodama, 2017; Markides, 1977) These scholars asserted that strategic innovation is conducive for large corporation as such corporation is in position to leverage its products and create business opportunity (Govindarajan & Trimble, 2005; Kodama, 2017; Markides, 1977) and therefore it is prudent to study innovation apart from products and process innovation which is essential for SMEs sustainable growth.

## **3. Research Questions**

This study could be classified into two parts, commonly being, to find out innovation in other areas besides process and product innovation; and secondly is innovation that contributes to sustainability growth in SMEs. The questions to be raised in the aforesaid study are listed below:

- 3.1. How does innovation in different areas contribute to SMEs?
- 3.2. How does the 'consolidation of innovative knowledge' among employees is implemented into the production or practice for the benefit of the SMEs?
- 3.3. Why does innovation contribute to the sustainable growth of SMEs?

## **4. Purpose of the Study**

The objective of this study is stated herein:

- 4.1. To examine innovation in SMEs.
- 4.2. To study whether directors and employees freely participate in the process of innovative knowledge.
- 4.3. To study innovation contributes to the sustainability growth of SMEs.

## 5. Research Methods

The methodology in this study is qualitative. Given the financial constraints and with effective mode of communication, the telephone is used to get the necessary information essential to the aforesaid study (Stephens, 2007; Sturge & Hanrahan, 2004). The question is of semi-structure and allowing a free flow of expression between the interviewer and interviewee.

The advantage of telephone interview is the presence of anonymity and privacy as compared to face to face interview (Chapple, 1999; Holt, 2010; Vogl, 2013).

Having face-to-face interview, there is the possibility that interviewee may encounter psychological problems which would hinder the free flow of discussion and thus distort a fair view of expression (Odoom, Anning-Dorson, & Acheampong, 2017; Opdenakker, 2006; Sturge & Hanrahan, 2004).

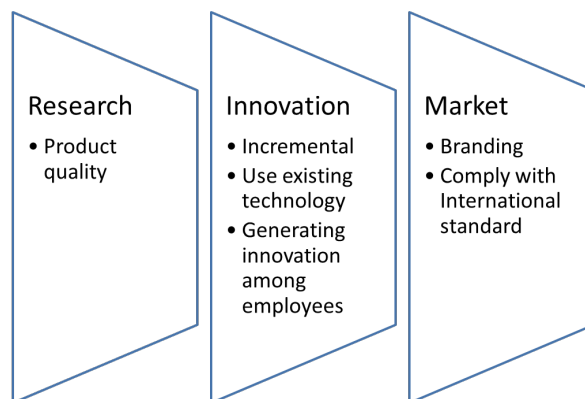
Huber and Power (1985) clarify that one person who is going to be communicated through telephone should be reliable, holding a managerial post, substantial knowledge of the organisation or what is going on at the processing unit. Realizing the constraint of time with the interviewees, questions raised were narrowly confined to innovating of products, technological change and sharing of innovative ideas among employees and how innovation is done in the processing of goods.

## 6. The case of Glove Manufacturing

For the purpose of the study, Nastah Industries Sdn. Bhd ([www.nastah.com.my](http://www.nastah.com.my)) was the focus of the study. Incorporated in 1987, Nastah Industries Sdn. Bhd is a pioneer in the Malaysia rubber glove industry with over 30 years of manufacturing experience. Nastah Industries is situated in the industrial zone of in the state of Penang, Malaysia. Nastah Industries is a manufacturer of quality rubber gloves (natural rubber, nitrile and neoprene) for various purposes such as general household, industrial use, chemical and hospital. Since its incorporation, Nastah Industries has been exporting gloves globally. To meet the challenges, Nastah engages in innovation on technology to ensure its goods are produced with perfection and meets the standard outlined by SGS UK Limited System, ISO 9001, US FDA CFR 21 and European Union.

An in-depth interview was carried out with managers and engineers from Nastah Industries. The question is of semi-structure and allowing a free flow of expression between the interviewer and interviewees. According to the managers of the aforesaid company, there are fourteen professional engineers, ten diploma employees to work in hand with the engineers and thirty form five holders in the production section. The sustainability of Nastah is due to its prudent spending with effective manageable management size which exploits on marketing its products.

*Figure 1* depicts the internal production where innovation and innovative knowledge are implemented in the best interests of Nashtah.



**Figure 01.** internal production of Nashtah

At the initial stage of production, Nashtah emphasised on the research of producing quality of gloves. Having identified the market, production commenced for the local market. As passage of time, the Board of Directors has the ambitious plan to export its product globally.

Consequently, the corporation endeavoured to innovate its production processes with high end machines, engaging professional engineers and other staffs to fulfill its ambition. The existing production machineries were maintained, however, some engineering modification were carried out by the mechanical engineers to improve the production. Recently, Nashtah invested in the latest technological and digital processing machineries to intensify the processing of raw materials and refined rubber for the production of gloves. No doubt the new innovative machine is more time and cost efficient, the company maintained the staffs and hope to engage more workers in the near future.

Furthermore, sharing of innovative knowledge among the employees irrespective of position is imminent in the corporation. It is a customary practise of Nastah to summon weekly meeting to exchange innovative knowledge which once consolidated would be used during the production process. The consolidation of innovative knowledge becomes the method or technique of production. As a form of motivation, employees come out with innovative ideas or approach are rewarded and their ingenuine ideas are circulated in their internal portal and on social media.

One of the engineers explained that the existing machineries are further studied to improve the current production output. This is assigned to a mechanical engineer whose task is to ensure the machineries are working, and innovate wherever possible.

The quality of gloves and branding or obtaining intellectual property to its products have contributed to the success at the global stage. Moreover, Nashtah's sustainability is due to prudent management, innovation, encouraging innovative ideas among employees, branded gloves or patent and marketing have contributed to the sustainability.

## 6.2. Research Question

Insofar Question (a) is concerned, innovation is essential for the production of quality products and to meet challenges at the global stage. Since one corporation is studied, it is necessary to study some other corporations to derive a concrete outcome.

For Question (b) there are evidences that interaction between the management and production has become a norm in Nashtah and it is where exchange of innovative knowledge or taught are encouraged and put into effect after the meeting.

Lastly for the Question (c) innovation contributes to business sustainability. At this juncture, the measurement of business sustainability is best measured by using net profit over the years. Such accounting details are kept confidential and therefore an accurate profit to indicate sustainability is blurred. Logically, the aforesaid corporation, interalia, is in existence for three decades and therefore one could argue that there is sustainability of the business.

## **7. Findings**

Based on the telephone communication which lasted an hour with the managers, innovation and innovative knowledge, interalia, contributed to the sustainability growth since its incorporation. Another telephone conversation with the engineer who furnishes some details of the processing of gloves and innovation done to the existing plant.

Approach by Nasthah in being supportive and encouraging employees to share innovative knowledge and to then consolidate such innovative knowledge into the system of production is an approach that has facilitated the growth of this corporation. Additionally, the lack of hierarchical approach between the professional and non-professional employees have further paved way for knowledge sharing in the organisation. To cut unnecessary expenditure, website can be found on the Internet about their products and some of the latest products are circulated through social media.

With availability of the capital, Nastah purchased the latest machine to process the raw latex to make it suitable to produce quality gloves.

## **8. Conclusion**

A final note, innovation depends upon the corporation's capability to pursue its desire to market innovative products. No doubt, Nashtah falls under the purview of SME, its sustainability growth is attributed to good management with innovative chemical engineers and subordinates. It is worth noting, that the aforesaid corporation can pursue R&D, adding technology to the existing plant and consolidating innovative knowledge among employees. With the capability of exploiting engineers of vast experience, information can be assessed from its competitors giving an advantage to the corporation (Afuah & Tucc, 2001; March, 2006).

To this end, Zahra and George (2002) argue with existing technology, employees and engineers who collaboratively work together with one common aim, that is to serve the best interest of the corporation. Added to this, there is not much detail about the management, but one can conclude that the Board of Directors of the aforesaid corporation owe a fiduciary responsibility to the corporation as stated in the Companies Act 2016. Since this study is about how the consolidation of innovative knowledge such as technological knowledge, employees' knowledge and exterior knowledge all of which contributed to the sustainability growth. All in all, it could be concluded that there is evidence to corroborate that innovative knowledge among the employees have become a culture in the organisation which is implemented. The



sustainability growth of this glove manufacturing corporation is due to innovation and fiduciary accountability of the directors.

For future study, fiduciary accountability of SMEs for sustainable business growth has to be explored.

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