ORGANIZATIONAL INNOVATION AND ORGANIZATION PERFORMANCE IN MALAYSIAN SERVICE INDUSTRY

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Corporate Master in Business Administration 2013
ORGANIZATIONAL INNOVATION AND ORGANIZATION PERFORMANCE IN MALAYSIAN SERVICE INDUSTRY

By

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A Research Paper Submitted in Partial Fulfillment Of the Requirements for the Degree of Corporate Master in Business Administration

Faculty of Economics
UNIVERSITI MALAYSIA SARAWAK (2013)
I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Corporate Master in Business Administration.

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Supervisor

The research paper was submitted to the Faculty of Economics and Business, UNIMAS and is accepted as partial fulfilment of the requirements for the degree of Corporate Master in Business Administration.

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I hereby declare that this research paper is to the best of the author's knowledge that of
the author except where due reference is made.

Signature: Neeta

Date: 12-09-2013

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ACKNOWLEDGEMENT

Alhamdulillah, by the will of Allah, I am able to complete my Corporate Business Project (CBP) within the required time. I would like foremost extend my sincere gratitude to all those efforts, who facilitated the completion of this paper.

First and foremost I offer my sincerest gratitude to my supervisor, Dr. Hamrila Abdul Latipp, who has supported me throughout my Corporate Business Project (CBP) with her motivation, enthusiasm, and immense knowledge. Her guidance helped me in all the time of CBP work and writing the report by commenting on my views and helping me understand and enrich my ideas. I am sure that CBP would have not been possible without her help and support.

Finally, I would like to thank everybody who important for me including my family members and my friends that has been a constant source of concern, support and strength all these years. From the experience in preparing this project paper, I had learned a lot of things and enjoy the process of investigating, analysing, theoretical building that bringing meaningful to the CBP report. To all those people, thank you so much.
ABSTRACT

Organizational innovation refers to changes in the structures and processes of an organization that result from implementing new managerial and working concepts and practices. Therefore, organizational innovations are undesirably important for the success of service firms.

Therefore, this study is conducted to understand and determine the relationship between organizational innovation and organization performance in Malaysian Service Industry. Besides, this study also identifies what the most innovation that influence performance of the services company in Malaysia. Using survey questionnaire and convenience sampling, one hundred and fifty respondents were selected for this study. The data collected were analysed using correlation and multiple regression analysis.

The results from study show that, Administrative Innovation is the most influential factors that affect dependent variable rather than others independent variables such as Process Innovation and Product Innovation. Finally, some of recommendation also has been suggested for future research.

Keywords: Innovation, Organization, Organizational Innovation, and Organization Performance
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CHAPTER 1: INTRODUCTION

This section addresses the background of the study, problem statement, research objective, and scope of the study, significance of study and definition of the term that related with this area of study.

1.1 BACKGROUND OF THE STUDY

Organizational innovation refers to the changes in the structures and processes of an organization that result from implementing new managerial and working concepts and practices. Therefore, organizational innovations are undeniably important for the success of service firms.

Traditionally, innovation activities of firms were mostly perceived to involve product and process. However, Barrano (2003) argued that an innovation in firms should not only involve developing and applying new technologies, but also adopt and reorganise business routines and the internal organisation. Hence, to gain a complete picture of the concept of innovation should be extended to non-technological innovation, including organizational innovation (Schmidt and Rammer, 2007).

Organizational innovativeness is studied such as management or strategy. According to Rise & Trout, 1981, they argue that innovation is a form of learning or something new (Gopalakrishnan & Damanpour, 1997). As study by Peters and Waterman (1982), they suggest that innovation is a means through which organizations respond to a variety of environmental changes while Rogers (2003) and Tushman and Nadler (1986) argue that innovation refers to a new idea, product, method or service adopted in organizations. “An
organizational innovation is the implementation of a new organizational method in the firm's business practices, workplace organization or external relations.

According to Armbruster et al.(2006), there are different types of innovations which can be divided into product innovation and process innovation. Product innovation is usually defined as the development of new products supported by R&D activities. Product service innovation is aimed at offering consumers new services, which might accompany a physical product. Product innovations also are defined as new products or services. Product Innovation uses to introduce and to meet an external user or market need. Product innovations share similar characteristics with technical innovations. In this product innovation they occur in the operating component and it will affect the technical system of an organization. Besides, it also include the adoption of a new idea for a product or service (Damapour and Evan, 1984; Kimberly and Evanisko, 1981).

Product innovation and Process innovation is quite similar with each other's but still have different in term of innovation. Process innovations aim to find new process technologies to make production faster. In contrast, organizational innovation will involve the development and implementation of new organizational structures and processes to offer the consumer more efficient and flexible solutions. Process innovations also are defined as new elements introduced into an organization's production or service operation. (Damanpour, Szabat and Evan, 1989; Damanpour and Gopalakrishnan, 2001). Basically, process innovation is more important to service industry rather than product innovation. This because in service industry, organization more think about customer satisfaction. When we talk about customer satisfaction, it means that organization must give good service or have good system in order to ensure customers satisfied with their products or services. Less complaint from customers means that good services from that firm.
According to Armbruster et al., 2006, there are four different types of innovation in organization. For service industry, most innovation that is important is product innovation, process innovation, and administration innovation.

<table>
<thead>
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<th>Technical</th>
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Source: Armbruster et al., 2006
1.2 PROBLEM STATEMENT

Organizational innovation in service industry is the implementation of an organizational method such as innovation in their practices or workplace organization to ensure succession of the service industry itself. This study will focus to measure and investigate the relationship between organizational innovations in order to ensure successful of organizational performance in service industry in Malaysia.

Nowadays, it is widely accepted that innovation is a primarily source of productivity growth. Organizational innovations can have an important effect on productivity on their own. In this sense, organizational innovations can help to increase the quality and efficiency of work and in the same time to improve the information sharing and the ability of the firm to use new technologies, as such increasing the productivity of investment in knowledge.

Accordingly to Oslo Manual (OECD, 2005) “organizational innovations refer to the implementation of new organizational methods. These can be changes in business practices, in workplace organization or in the firm’s external relations.”
1.3 SIGNIFICANCE OF THE STUDY

There are many studies on innovation and organization performance that are related with service industry. This study will determine whether an increasing of organization performance in the Malaysian service industry has positive relationship with organization innovation.

Some literature provides two perspectives of looking at organizational innovation in service industry. The first perspectives argue that innovation is a form of learning (Ries & Trout, 1981) or something new (Gopalakrishnan & Damanpour, 1997). According Peters and Waterman (1982) they suggest that innovation is means through which organizations responds to a variety of environmental changes while Rogers (2003) and Tushman and Nadler (1986) argue that innovation is refers to a new idea, products, methods or service adopted in organizations itself.
1.4 OBJECTIVE OF THE STUDY

Main Objective:

To identify the relationship between organization innovation and performance of organization for Malaysia Service Industry

Supporting Objectives:

- To identify relationship between process innovation and organization performance
- To identify relationship between product innovation and organization performance
- To identify relationship between administrative innovation and organization performance

1.5 SCOPE OF THE STUDY

This study focuses on organizational innovation and it’s affects on organizational performance in Malaysian Service Industry.

This study will focus closely among employees in service industry involves in telecommunication, banking and other company that provide services in Malaysia.
1.6 DEFINITION OF TERMS

1.6.1 ORGANIZATION INNOVATION

"Organizational innovation means the implementation of new organizational method in the undertaking's business practices, workplace organization or external relations. Changes in business practices, workplace organization or external relations that are based on organizational methods already in use in the undertaking, changes in management strategy, mergers and acquisitions, ceasing to use a process, simple capital replacement or extension, changes resulting purely from changes in factor prices, customisation, regular seasonal and other cyclical changes, trading of new or significantly improved products are not considered innovations" (Official Journal of the European Union, 2006).

1.6.2 ORGANIZATION PERFORMANCE

According to Richard et al. (2009), Organizational performance comprises the actual outputs or results of an organization as measured against its intended outputs (or goals and objectives). Organizational performance involves the recurring activities to establish organizational goals, monitor progress toward the goals, and make adjustments to achieve those goals more effectively and efficiently. (Carter Mc Namara, MBA, PhD, Authenticity Consulting, LLC)
1.6.3 SERVICE INDUSTRY

Service industry is an industry made up of companies that primarily earn revenue through providing intangible products and services. Service industry companies are involved in retail, transport, distribution, food service, as well as other service-dominated businesses. Service industry also called as tertiary sector of industry.
CHAPTER 2: LITERATURE REVIEW

2.1 CHAPTER OVERVIEW

This chapter will discuss about organizational innovation and organization performance from several perspectives. In this chapter will include all comprehensive reading from various book and journals. This chapter clarifies and describes definition, related concept and theories of effectiveness of organizational innovation and its relationship with organization performance.

2.2 ORGANIZATION

Organization is a social unit of people that is structured and managed to meet a need or to pursue collective goals. All organizations have a management structure that determines relationships between the different activities and the members, and subdivides and assigns roles, responsibilities, and authority to carry out different tasks.

2.3 INNOVATION

An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.

Innovation at the level of an individual firm might be defined as the application of ideas that new to the firm, whether the new ideas are embodied in products, processes, services or in work organization, management or marketing systems. (DIST, 1996, p2).
Innovation is the development of new values through solutions to meet new requirements, inarticulate needs, or old customer and market needs in value adding new ways. All of this accomplished through more effective products, processes, services, technologies or ideas that are readily available to markets, government and society.

Innovation differs from invention in that innovation refers to the use of better and, as a result, novel idea or method, whereas this invention refers more directly to the creation of the idea or method itself. Innovation is differs from improvement in that innovation refers to the notion of doing something different rather than doing the same thing better.

Organizations can improve the quality of innovation through Kirton’s thinking style Adaption- Innovation Inventory and measure the effectiveness by applying a Balanced Scorecard as put forth by Kaplan and Norton.
2.4 ORGANIZATIONAL INNOVATION

Organizational Innovation is refers to new ways work can be organized, and accomplished within an organization to encourage and promote competitive advantage. Organization Innovation encompasses how organizations and individuals specifically, manage work processes in such areas as customer relationships, employee performance and retention, and also knowledge management.

Organizational innovation is the need to improve or change a product, process or service. All innovation resolves around change but not all change is innovative. Organizational innovation encourages individuals to think independently and creatively in applying personal knowledge to organizational challenges. Therefore, organizational innovation requires a culture of innovation that supports new ideas, processes and generally new ways of doing business.

Importance of knowledge and learning within organizational innovation is crucial. If innovation is about change, new ideas, and looking outside of oneself to understand ones environment, then continuous learning is a requirement of organizational innovation success. If new organizational knowledge doesn’t result in change, either in processes, business outcomes, or increased customers or revenues, then its value hasn’t been translated into success.

Organizational innovation has been broadly defined as the adoption of idea or behaviour new to the adopting organization (Damanpour & Evan; 1984). Innovation is conceived as a means of changing an organization, either as a response to changes in the external environment or as a pre-emptive action to influence the environment. Innovation as encompassing a range of types, including new products or services, new process technologies, new organizational
structure or administrative systems, or new plans or programs pertaining to organizational members. (Damanpour, 1996).
2.5 ORGANIZATIONAL INNOVATION IN WORKPLACE ORGANIZATION

According to Oslo Manual, "innovations in workplace organization involve the implementation of new methods for distributing responsibilities and decision making among employees for the division of work within and between firm activities (and organizational units), as well as new concepts for the structuring of activities, such as the integration of different business activities. An example of an organizational innovation in workplace organization is the first implementation of an organizational model that gives the firm's employees greater autonomy in decision making and encourages them to contribute their ideas. This may be achieved through the decentralisation of group activity and management control or the establishment of formal or informal work teams in which individual workers have more flexible job responsibilities. However, organizational innovations may also involve the centralisation of activity and greater accountability for decision making. An example of organizational innovation in the structuring of business activities is the introduction for the first time of build-to-order production systems (integration sales and production) or the integration of engineering and development with production”.

Service organizations face increasing competitive pressure to maintain market share, enhance product range, improve efficiency, and reduce costs (Flynn et al., 2003). Innovations in organization can contribute to the success of service firms. Through innovation, it will give the employees greater freedom, but more responsible, demanding special skills in the front and back- offices of service companies to foster and harmonise the inter-linkage between organizational change and innovation.

Every organizational innovations deals with decision making. From a decision-theoretic perspective, the innovation process itself can be considered as a type of decision and innovation can be seen as composed of multiple decision processes. Innovation can act as
determinants of organizational innovation, such as the introduction of decentralised work
teams which give the employees more opportunities for decision making on their own.