

# CHAPTER I

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Nowadays, with the rapid changes in business world, increasing number of companies include innovation on their strategy and consider it as essential for their growth and sustainability. Therefore, they allocate more time and money to innovation. Innovation can be a procedure of using new knowledge or even utilizing existing knowledge to achieve new processes, services, knowledge or products. Innovation has become vitally important for many organizations and is considered to be essential for many companies to attain competitive advantage. Innovation capability is also considered to be an essential aspect of an organization's growth and success. In particular, it means the ability of a firm to create new knowledge and to implement the applicable knowledge and creative ideas successfully to achieve market value. Moreover, it refers to the organization's ability to modify and develop existing products or technologies and to create new ones. Many companies seek to develop their innovation capability in order to attain innovative outputs, increase their profits and achieve higher performance. Innovation capability is the capacity of organization to create new idea, process and product successfully. (Aini, et.al., 2013).

In recent years, innovation and creativity have come to be regarded as essential for company's competitiveness and success. Companies can avail considerably more from applying innovation strategies. Besides that, they also have a greater chance of growing and succeeding. Innovation capability makes companies able to introduce main products to the market, come up with innovative business procedures, boost business value and accelerate the pace of innovations in the market. Innovation capability

is the ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the firm and its stakeholders. Innovation capability varies according to the type of innovation. Innovation capability plays a significant role in promoting and developing organizations. Many companies seek to develop their innovation capability in order to attain innovative outputs, increase profits and achieve higher performance. An organization's innovation capability is the key motive for fostering innovation so as to lead to an organization's success. It also defined innovation as a new combination of fundamental elements of production. In fact, innovation is a process of combining existing things or resources. Innovation is considered to be the process of applying discoveries and new concepts. This process results in introducing new outcomes, products and processes. Innovation is sharing the idea that implies the adoption of a new idea or behavior. (Aini, et.al., 2013)

Innovation is the knowledge process that has a target of creating new knowledge so as to develop commercial solutions. It is a process that includes knowledge possession and sharing so as to create new knowledge. Innovation is the adoption of an idea or behavior that is new to the organization. Innovation is all about creating new ideas and knowledge that help business to achieve new outcomes, by improving business structures and processes from the inside to create products that meet market needs. Innovation is the most fundamental source for firm's success and survival. This can only happen if the company has the capacity to innovate. The companies have greater opportunities to grow and succeed operationally and financially through concentrating on developing, embracing and delivering innovations to the marketplace. Innovation in various aspects such as in terms of the introduction of new goods, methods, procedures, market and structure of an organization, which means a new combination of fundamental resources. Innovation is related to

marketing and organizational innovation. Product, process, organizational and market innovation are all parts of innovation. (Kafetzopoulos and Psomas, 2015).

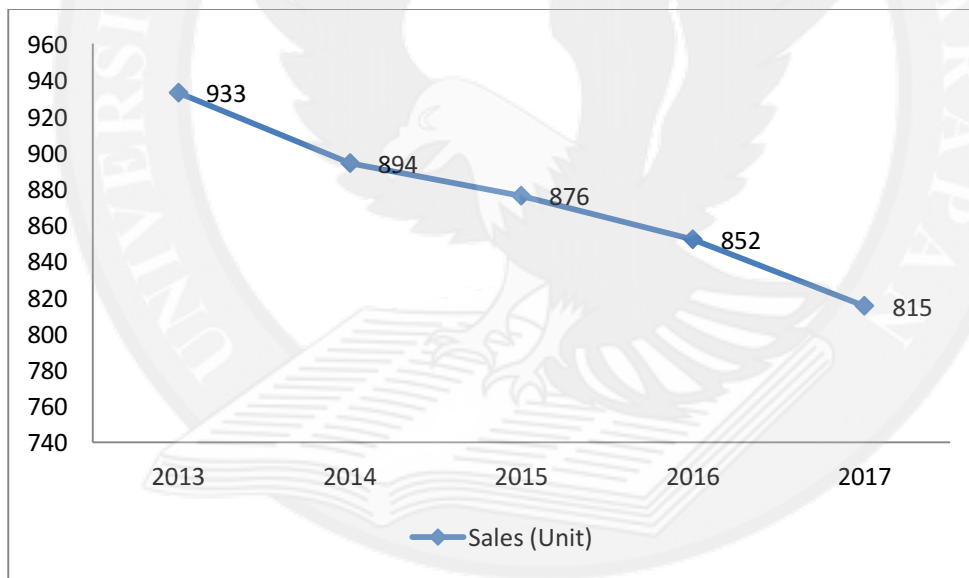
This research is done at CV Mitra Motor Sejati Medan. The company is engaged in distribution of motorcycles. The company does not have good business performance. The company cannot increase the sales and number of customers significantly. The sales of company in year 2013-2017 can be seen as follows:

**Table 1.1 The Company's Sales in Year 2013-2017**

Year	Sales (Unit)
2013	933
2014	894
2015	876
2016	852
2017	815

Source: Prepared by The Writer (2018)

The data can be presented in the figure of sales for year 2013-2017 as follows:



**Figure 1.1 The Company's Sales in Year 2013-2017**

Source: Prepared by the Writer (2018)

From table and figure above, it can be seen that there is decreasing company's sales in year 2013-2017. This indicates the deteriorating business performance. Some customers donot have

satisfaction from the company's products and services. The customers do not want to recommend to other people. The declining business performance can pose as difficulties for the company in developing the business and business expansion. This deterioration on performance can be caused by innovation. According to Gungaphul (2014), "In doing things differently and in adopting innovative practices, these create added value to the offering and in turn influence profit and performance."

The company does not conduct innovation in business process. The company does not have innovation capability, such as making innovation for delivering products quickly to customers. According to Quingrui Xu (2012, p.172), innovation capability is a process and the ability of firms to create valuable products through integrating previous researches. The company does not use technology in fulfilling sales order quickly with result in customers not able to get the products quickly. Some employees do not have innovation capability, especially in increasing sales. The employees do not have innovation in sales activities, such as giving interesting prices, payment method and promotion activities. The company does not conduct service innovation such as giving after-sales service and additional service for motorcycles.

Based on description above, the writer wants to conduct the research to find out whether it is true that there is relation between innovation capability and business performance through this *skripsi* entitled "**The Impact of Innovation Capability on Business Performance at CV Mitra Motor Sejati Medan**".

## **1.2 PROBLEM LIMITATION**

Due to limitation of time and budget, the writer will limit this study to only about innovation capability as independent variable and business performance as dependent variable. The research is focused on CV Mitra Motor Sejati Medan.

## **1.3 PROBLEM FORMULATION**

Based on the background of study, the writer can formulate research questions as follows:

1. How is innovation capability at CV Mitra Motor Sejati Medan?
2. How is the business performance of CV Mitra Motor Sejati Medan?
3. Is there any relation between innovation capability and business performance at CV Mitra Motor Sejati Medan?

## **1.4 OBJECTIVE OF THE RESEARCH**

The purposes of doing this research are as follows:

1. To evaluate the innovation capability at CV Mitra Motor Sejati Medan
2. To assess the business performance at CV Mitra Motor Sejati Medan
3. To identify the relation between innovation capability and business performance at CV Mitra Motor Sejati Medan.

## **1.5 BENEFIT OF THE RESEARCH**

The benefits from conducting this research are as follows:

### **1.5.1 Theoretical Benefit**

This research can give benefit in understanding and developing entrepreneurship theory, especially about innovation capability and business performance.

### 1.5.2 Practical Benefit

1. For the writer, this research can improve knowledge in entrepreneurship, especially on innovation capability and business performance.
2. For the company, this research can offer some suggestions for improving business performance.
3. For other researchers, this research can be used as reference for other researches on the similar area.

## 1.6 SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows:

### **Chapter I: Introduction**

This chapter consists of the background of the study, problem limitation, problem formulation, objective of the research, benefit of research and systems of writing.

### **Chapter II: Literature Review and Hypothesis Development**

This chapter consists of theories that are related with this research, such as definition of entrepreneurship, innovation capability and business performance. This chapter also describes previous research, develops hypothesis, makes research model and framework of thinking.

### **Chapter III: Research Methodology**

This chapter describes the research design, population and sample, data collection method, operational variable definition and variable measurement and data analysis method.

### **Chapter IV: Data Analysis and Discussion**

This chapter describes general view of research object, data analysis and discussion.

**Chapter V: Conclusion**

This chapter consists of the conclusion, the implication and recommendation of this research.

