

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF STUDY

Business environment is being characterized by increasingly complex and dynamic changes. Uncertain economic conditions and huge competition are the business reality. The quality based on innovations becomes imperative and necessary precondition for corporations to keep and improve their market position. In order to survive in a turbulent environment, it is necessary to work constantly on innovations. Corporations are more than ever under pressure to make their organizational systems more efficient and competitive. Entrepreneurial activities can give a company a competitive advantage in existing or new markets. Entrepreneurship actions are newly fashioned set of actions through which companies seek to exploit entrepreneurial opportunities that rivals have not notice or exploited. Entrepreneurial activities can renew established company. Renewal is usually done through innovation and venturing activities that give the firm access to different skills, capabilities, and resources.

The notion of entrepreneurial orientation is applicable to any firm, regardless of its size and type. Entrepreneurial activities at the level of established organization which means corporate entrepreneurship have been recognized as an important element in organizational and economic development and performance. Entrepreneurship is defined as the process that involves all functions, activities and actions associated with perceiving opportunities and creating business organization to pursue them. Corporate entrepreneurship encompasses the transformation processes, as the most complex form, that are expected to accelerate coordinated changes of organizational structure and culture in order to encourage entrepreneurial behaviour of individuals.

Organization's demand for innovation is the first step to generate or adopt innovation by organization. To achieve this goal, every level of an organization need to constantly grab new business opportunities to embrace entrepreneurial behaviours and attitudes. Organization demand for innovation is a type of of employment creation, wealth creation and expansion. Firms need to behave entrepreneurially in order to have a competitive advantage over competitors in ever dynamic and highly competitive business environment. Innovation is as the implementation of a new or significantly improved product, process, a new marketing method or a new organizational method in the business practice, workplace organizations or external relations. An enterprise can constantly make different types of changes such as work methods, production factors, and outputs with a purpose to improve the performance. Entrepreneurs play a fundamental role in innovative activities due to their potential flexibility and creativity. The most innovative companies have achieved the best growth performance in terms of sales turnover and employment generation.

Innovation is the creation of new wealth or the alteration and enhancement of existing resources to create new wealth. Innovation is also seen as a process of idea creation, a development of an invention and ultimately the introduction of a new product, process or service to the market. Capability in product and business innovation is crucial for a firm to exploit new opportunities and to gain competitive advantage. Innovation would appear in product, process, market, factor and organisation. Innovation is where organizations adapt or develop innovations which analyze, observe decrease or prevent environmental problems. Cumulative adoption of innovation types over time has a positive relation with firm performance. Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage.

This research is done at PT Allianz Life Indonesia in Medan. The company is engaged in insurance products and services. With the goal to increasing the revenues, the company needs the willingness and commitment of the employee in achieving the goals. The insurance company conducts innovation to provide innovative products in order to attract customers to buy insurance product offered. One of the ways is to know what factors affect the purchase of insurance products. Many people consider insurance as a burden. Customers often find it difficult to take claims. There is also a burden in high premiums. Another problem is the complicated policy. Customers also get inconvenience when make contact with insurance agent. The company doesn't conduct the innovation in improving the product, process and service of insurance. The company has efforts to sell insurance products. There is little opportunity for consumers to get to know the insurance product itself. The customers feel that the company doesn't provide various product in accordance with customer's expectation. Therefore, the company cannot reach many market segments. The company also has difficulties in increasing the amount of customers.

Based on description above, the writer want to conduct the research with title **“The Impact of Innovation on Organizational Performance at PT Allianz Life Indonesia in Medan”**.

1.2 PROBLEM LIMITATION

Based on writer's ability, the writer makes limitation of the research in innovation as independent variable and organizational performance as dependent variable in at PT Allianz Life Indonesia in Medan.

1.3 PROBLEM FORMULATION

Based on the background study above, the writer can take problem formulation as follows :

1. Does the innovation have impact on organizational performance at PT Allianz Life Indonesia in Medan?
2. What kind of innovation that have been implemented at PT Allianz Life Indonesia in Medan?

1.4 OBJECTIVE OF THE RESEARCH

The purposes in doing this research are as follows:

1. To find out whether innovation does have impact on organizational performance at PT Allianz Life Indonesia in Medan
2. To investigate the types of innovation that have been implemented at PT Allianz Life Indonesia in Medan

1.5 BENEFIT OF THE RESEARCH

The benefits from conducting this research are as follows:

1.5.1 THEORETICAL BENEFIT

1. For writer, this study can improve the academic and has deeper understanding in entrepreneurship especially innovation and organizational performance.
2. This research help the writer to implement the innovative strategies that will have impact on organizational performance.

1.5.2 PRACTICAL BENEFIT

1. For writer, this study can give knowledge to writer in entrepreneurship especially innovation and organizational performance.
2. For the company, this research can provide input to company in improving innovation and organizational performance.

3. For other company, this research can be used as input by other entrepreneur in improving organizational performance with making innovation.

1.6 SYSTEMS OF WRITING

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

Chapter I : Introduction

In this chapter, the writer describes about the background of the study, problem limitation, problem formulation, objective of the research, benefit of research and systems of writing.

Chapter II : Literative Review and Hypothesis Development

In this chapter, the writer describes some theories that are related to the topic of the study, such as entrepreneurship, innovation and organizational performance. The writer presents previous research, develops hypothesis, makes research model and framework of thinking.

Chapter III : Research Methodology

In this chapter, the writer explains 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 consists of general view of research object, data analysis and discussion.

Chapter V : Conclusion

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