

**THE MEDIATING EFFECT OF INNOVATION ON THE RELATIONSHIP  
BETWEEN ENTREPRENEURIAL COMPETENCIES AND  
BUSINESS SUCCESS IN MALAYSIA**

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## ABSTRACT

This study aims to analyse the impact of Entrepreneurial Competencies, Innovation, and Business Success among owners and managers in Small and Medium Enterprise (SMEs) to address the high rate of business failure. Quantitative approaches through the use of survey were used in this study. Data were collected using questionnaires involving 407 owners and managers of SMEs in manufacturing, services and other sectors. Respondents were chosen using using Stratified Random Sampling technique. Multiple Regression Analysis indicated that 53 percent of the variation in Business Success were explained by Entrepreneurial Competencies and Innovation. The findings also showed that Entrepreneurial Competencies contributed significantly to Business Success ( $\beta=0.190$ , S.E=0.051) and Innovation ( $\beta=0.198$ , S.E=0.013). Further, Innovation contributed significantly to Business Success ( $\beta=1.035$ , S.E=0.226). This study also showed that Innovation served as partial mediator between Entrepreneurial Competencies and Business Success. The implication of this study suggested that entrepreneurial competencies possessed by owner and manager would increase the success of business. Furthermore, innovation creates competitiveness advantage, hence increase the business success of SMEs in Malaysia.





## INOVASI SEBAGAI KESAN PERANTARA PADA HUBUNGAN ANTARA KOMPETENSI KEUSAHAWANAN DAN KEJAYAAN PERNIAGAAN DI MALAYSIA

### ABSTRAK

Kajian ini bertujuan menganalisis impak Kompetensi Keusahawanan, Inovasi, dan Kejayaan Perniagaan dalam kalangan pemilik dan pengurus Perusahaan Kecil dan Sederhana (PKS) di Malaysia bagi menangani isu kegagalan perniagaan yang tinggi. Pendekatan kuantitatif dengan kaedah kajian tinjauan digunakan dalam kajian ini. Data dikumpul melalui borang soal selidik yang melibatkan 407 pemilik dan pengurus perniagaan PKS dari sektor pembuatan, sektor perkhidmatan dan sektor lain. Responden dipilih menggunakan teknik Persampelan Rawak Berstrata. Analisis Regresi Berganda menunjukkan 53 peratus variasi Kejayaan Perniagaan diterangkan oleh Kompetensi Keusahawanan dan Inovasi. Dapatan kajian juga menunjukkan Kompetensi Keusahawanan menyumbang secara signifikan kepada Kejayaan Perniagaan ( $\beta=0.190$ , S.E=0.051) dan Inovasi ( $\beta=0.198$ , S.E=0.013). Selain itu, Inovasi memberi kesan yang signifikan kepada Kejayaan Perniagaan ( $\beta=1.035$ , S.E=0.226). Dapatan kajian turut menunjukkan bahawa Inovasi menjadi perantara separa kepada hubungan Kompetensi Keusahawanan dan Kejayaan Perniagaan. Implikasi kajian mencadangkan bahawa kompetensi keusahawanan yang dimiliki oleh pemilik dan pengurus dijangka dapat meningkatkan kejayaan sesebuah perniagaan. Selain itu, inovasi mewujudkan kelebihan daya saing dan seterusnya meningkatkan kejayaan perniagaan PKS di Malaysia.



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## LIST OF ABBREVIATIONS

AMOS	Analysis of Moment Structure
APEC	Asia Pacific Co-operation
ASEAN	Association of Southeast Asian Nations
CFA	Confirmatory Factor Analysis
CSR	Corporate Social Responsibility
EFA	Exploratory Factor Analysis
EST	Entrepreneurial Subjectivism Theory
GDP	Gross Domestic Product
GLC	Government Link Companies
ICT	Information Communication Technology
IPR	Intellectual Property Rights
MAGIC	Malaysian Global Innovation and Creativity Centre
MCE	Malaysian Certificate of Education
MITI	Ministry of International Trade and Industry
MNC	Multi-National Companies
MSMEs	Micros, Small and Medium Enterprises
NSDC	National SME Development Council
OECD	Economic Cooperation and Development
PEMANDU	Performance Management and Delivery Unit
PMR	<i>Penilaian Menengah Rendah</i>
R&D	Research and Development

RBT	Resource-Based Theory
ROI	Return on Investment
SEM	Structural Equation Model
SRP	<i>Sijil Rendah Pelajaran</i>
SMEs	Small and Medium Enterprises
SME Corp.	SME Corporation Malaysia
SPM	<i>Sijil Pelajaran Malaysia</i>
STPM	<i>Sijil Tinggi Persekolahan Malaysia</i>
SPSS	Statistical Package For Social Science
SQAVE	Square Root Average Variance Extracted
UNDP	United Nations Development Programme
WIPO	World Intellectual Property Organisation

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## CHAPTER 1

### INTRODUCTION



#### 1.1 Introduction

Recent developments in research on entrepreneurship have been increased attention given to Small and Medium Enterprises or SMEs, largely due to the realisation that SMEs play a significant role in a country's economy. The collective impact of SMEs on the economy of both developed and developing countries is considerable. In developing country like Malaysia, SMEs are seen as a mechanism to improve the distribution of income, to stimulate economic growth, and to reshape an economic structure which has been highly depending on the activities of large firms (Mohsin, Halim, Ahmad, & Farhana, 2017; Murjan, 2012). This is seconded by the Prime





Minister of Malaysia claimed that SMEs are the backbone of Malaysian economy (SME Annual Report, 2017).

Given that increasing the chances of success among SMEs would have huge implications for the growth and socio-economic wellbeing of a country (Asia-Pacific Economic Cooperation [APEC], 2004), understanding predictors of success in SMEs is critical. The creation of more successful SMEs could potentially create new jobs, increase trade and income, and consequently GDP of the country. Unfortunately, the literature on SMEs shows lack of consistency with regard to the key factors that determine SMEs success (O'Regan & Ghobadian, 2004). Contrasting views exist, with some scholars attributing success to the influence of the individual (i.e., the entrepreneur) and others highlighting the importance of external/environmental factors (such as the state of the economy, government policy, financial support, and supportiveness of the infrastructure). However, Talik, Wiechetek, and Laguna (2012) claimed that the business success of each business heavily depends on the person who managed it.

A central thesis of this study is that entrepreneurial competencies, which are defined as “underlying characteristics such as generic and specific knowledge, motives, traits, self-image, social roles, and skills which results in venture birth, survival, and/or growth” (Bird, 1995), may be the key to improving business success. The principal aim of the present study is, therefore, to examine the impact of entrepreneurial competencies on business success in SMEs operating in Malaysia. Al-Mamun, Muniady, Ibrahim, and Che Nawi (2018) suggested the level of





entrepreneurial competencies must be maximised to increase the economy sustainability.

Researchers are in general agreement about the numerous difficulties experienced by SMEs. In particular, SMEs have greater failure rates than larger firms and facing difficulties for surviving by Alfaadheel (2010). Murjan (2012) suggested that innovation is one of the keys for SMEs to survive and differentiate themselves from a rival. Several researchers have found innovation to have a significant relationship with business success (Szymanski & Henard, 2000; Li & Atuahene-Gima, 2001). Philipp Koellinger (2008) suggested that some entrepreneurs more innovative than others were related to their entrepreneurial competencies. Ndesaulwa and Kikula (2016), and, Mahina and Usman (2016) claimed that innovation has an impact on SMEs. Thus, this study also examines the innovation affected SMEs' business success.

## 1.2 Research Background

SMEs are very important to the world economies (Tehseen, Sajilan, Ramayah, & Gadar, 2015; Wiklund, Patzelt, & Shepherd, 2009). Throughout the world, the role of SMEs is becoming increasingly prominent (Bayarcelik, Tasel, & Apak, 2014; Veskaisri, Chan, & Pollard, 2007; Alsulamy, 2005). It plays a crucial role in the economic growth of most nations regardless status of countries (Wong, Ho, & Autio, 2005; Mahmood & Hanafi, 2013). A vibrant SMEs sector is one of the principal





driving forces in the development of the market, hence is not surprising that since the 1980s the birth and growth of new firms has been seen as a major source of economic growth (Gray, Saunders, & Goregaokar, 2013). This is supported by many researchers claimed that SMEs are an important agent to develop a country (Khan & Khalique, 2014; Alfaadhel, 2011; Oke, Burke, & Myers, 2007).

SMEs can be established for most of the activities of business, and they are considered as a backbone of country's economy (Khalique, Isa, Shaari, Abdul, and Ageel, 2011; Radam, Abu, & Abdullah, 2008; Amini, 2004). A report published by APEC (2010) suggested in every country in the APEC's members, SMEs account for over 90% of all enterprises. For economies of most nations of the world, the demand of the SMEs is increasing and has become their recognised feature (Thurasamy, Mohamad, Omar, & Marimuthu, 2009).

SMEs represents 99% of overall active firm globally, and SMEs created around 60% to 70% of total employment (Robu, 2013). According to OECD (2017), SMEs represents more than 95% of enterprises and ensure around 70% of the jobs. For example, in the United States of America, SMEs represent an overwhelming majority of all business and account for almost one-half of the gross national product, which SMEs contributed 53% (Mahmood & Hanafi, 2013). Shaver and Scott (1991) highlighted five main roles of SMEs such as: (1) SMEs provided job opportunities; (2) SMEs closed to customers due to flexibilities and distances; (3) SMEs performed sub-contracting functions; (4) SMEs acted as import substitute roles; and (5) SMEs acted as "balancing" in wealth distribution and power in society.

