



The Mediating Effect of Entrepreneurial Orientation in the relationship between SME's Developing Program and Business Success of SME in Malaysia

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ABSTRACT : The aim of this study to analyze the relationship between SME development program on the success of SMEs in Malaysia. The key areas studied were access programs to human capital development, access programs to financing, and market access programs organized by SME Corporation and related agencies. This study also aimed to determine the role of the mediator variable that is entrepreneurial orientation on the relationships between SME development program with the success of SMEs in Malaysia. The quantitative survey design was used and data was collected from 500 SMEs from the manufacturing, services, agriculture, and others that registered with SME Corp. This study also used systematic random sampling techniques. Statistical analysis conducted to test the research hypotheses using SPSS version 23.0 were descriptive analysis, correlation, and regression. The findings showed that there was a significant and positive relationship between SME development program and SME success ($R=0.937$, $P=0.001$), and entrepreneurial orientation also has a relationship as a mediator between SME development program and SME success in Malaysia. ($R^2=0.56$, $P=0.001$). This study contributed to a specific strategy for SMEs on how entrepreneurial orientation acts as a mediator for SME development programs and SME success in Malaysia. In conclusion, this study is in line with the government's requirements to ensure that every SME is applied with the right entrepreneurial knowledge through the SME development program conducted, while entrepreneurial orientation creates the ability to be more proactive, competitive, innovative, and risk-averse SMEs in Malaysia.

KEYWORDS: SME Development Program, Entrepreneurial Orientation, Business Success

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I. INTRODUCTION

In developing countries such as Malaysia, Small and Medium Enterprises (SMEs) are seen as a mechanism to increase income distribution, stimulate economic growth, and reshape the economic structure that is highly dependent on the activities of large firms (Mohsin, Halim, Ahmad, & Farhan, 2017; Murjan, 2012). This is supported by the Prime Minister of Malaysia where he has explained that SMEs are the backbone of the Malaysian economy (SME Annual Report, 2017). Along with the growth of the SME industry, it has increased the chances of success among SMEs in turn has great implications for the growth and socio-economic well-being of the country (Asia Pacific Economic Cooperation [APEC], 2004). The establishment of successful SMEs has the potential to create new job opportunities, increase trade and income, and in turn can increase Gross Domestic Product (GDP) which has an impact on the country. However, a study conducted by O'Regan & Ghobadian, 2004 on SMEs shows a lack of consistency in business is by taking into account factors such as entrepreneurs have experienced at least one failure in managing their business. In addition, there are differences from the findings of Nor Hafizah (2018) study in which some researchers associate success with the influence of individuals (ie, entrepreneurs) and other external factors such as economic conditions, government policy, financial support, and infrastructure to enable a person successful SME entrepreneur.

Small and Medium Enterprises (SMEs) are often associated with growth and development in a country due to economic and social contributions, as well as encouraging competition in the market. However, inconsistent findings in the literature trigger the need for researchers to conduct further studies on the factors that influence the success of SMEs. The establishment of successful SMEs has the potential to create new job opportunities, increase trade and income, and in turn can increase Gross Domestic Product (GDP) which has an impact on the country. However, a study conducted by O'Regan & Ghobadian, 2004 on SMEs shows a lack of

consistency in business is by taking into account factors such as entrepreneurs have experienced at least one failure in managing their business to determine the success of SMEs. Therefore, the main objective of this study is to find out the relationship between SME development program and SME success, measure the effect of mediation of entrepreneurial orientation in the relationship between SME development program and SME success in Malaysia. At the same time, this study also measures the importance of SME development programs to the success of SMEs in Malaysia.

This study focuses on SME development programs organized by relevant agencies such as SME Corp, TEKUN, MARA, SME Bank, and other agencies. It is also supported by entrepreneurial orientation driven by factors such as innovation, proactiveness, autonomy and risk-taking. According to Yusof, Abdullah, Arjunan & Bakri (2013), for individuals with entrepreneurial orientation is a willingness for those individuals to use creativity, innovation and risk-taking to shape and develop themselves. According to the Prime Minister, Tan Sri Muhyiddin Yassin (2020), the approach needed to help SMEs with proactive measures is to finance the working capital needs, provide consulting services, provide appropriate training and so on. Therefore, in order to stabilize the economy, SMEs need sufficient capital to cover all their costs and then they should have a certificate and also get guidance from those responsible when a situation happens to them.

According to Chong and Almsafir (2013), claimed that in 2009 only 4.3% of new businesses were able to resume operations after 42 months. Lopa and Bose (2014), suggest that in the long run, entrepreneurs need to focus on entrepreneurial competence for business sustainability and ensure business success can be achieved in the future. This is in line with a study conducted by Bank Negara Malaysia (2003), recommending that entrepreneurial spirit possessed by entrepreneurs and good programs for human resource development affect the success of SME business (Bank Negara Malaysia, 2003; SME Corp, 2010).

II. LITERATURE REVIEW

The Malaysian Small and Medium Industry Development Corporation (SMIDEC) defines SMEs as generally classified as sub-sectors. This will facilitate the government to formulate effective development policies, further planning support program activities as well as the provision of technical and financial assistance. SME enterprises will be measured for each category based on the annual sales percentage or the number of full-time employees as shown in the table below (SMIDEC, 2018).

Table 2.1 Definition of SMEs based on Size

Manufacturing, Related Services Manufacturing Agro-industry	Sales turnover less than RM 250,000 or full-time employee less than 5 years	Sales turnover less than RM 250,000 or full-time employee less than 5 years	Sales turnover between RM 10 million and RM 25 million or full-time employee between 5 years to 15 years
Services and Information & Communication Services Technology (ICT)	Sales less than RM 200,000 or full-time employees less than 5 people	Sales between RM 200,000 and less than RM 1 million or full-time employees between 5 people to 19 people	Sales between RM 1 million and RM 5 million or full-time employees time between 20 people to 50 people

Source: SMIDEC, 2018

SMEs often face various problems especially for large companies and multinational companies. These issues and challenges are also often faced by SMEs around the world. According to Yusoff, Jia, et al. (2018), small companies in Malaysia face various problems including economic conditions, rising insurance costs, taxes, health and safety, lack of bank loans, competition in the domestic and foreign markets, transportation issues, employee skills gap. These issues showed a direct relationship with SMEs in Malaysia, especially those involved in SME development programs with the national business planning phase. In addition, from the observations of this study, most businesses, especially SMEs in Malaysia, have problems in achieving success due to the lack of exposure in SME development programs. Another problem is the issue of ineffective sales and marketing. Common problems faced by SME entrepreneurs in Malaysia are finding customers to get business products, time management, knowledge on how to pricing services or products properly, promoting price offers as well as business proposals and activities carried out. SMEs also face common problems related to the cost of living and competition in business, especially large firms in urban areas. (Othman, Shaarani, et al. 2019)

In Malaysia, one of the main problems faced by SMEs in Malaysia is that they lack information on marketing channels and failed to create a good marketing network to be better known. Zainol, Osman, et al. (2018), identified that the main problem faced by SMEs in Malaysia is the lack of knowledge and exposure on marketing techniques, exporting, branding, and also the lack of good networking with other local and international enterprises. In addition, according to Radzi, and Ariffin (2018), stated that the problems in marketing SME products are due to poor design, poor quality products, use of low-quality raw materials and lack of skilled labor as well as lack of promotion of after-sales services. In the domestic market, SME entrepreneurs in Malaysia have limited access to procurement by the Government and large companies. This is

due to the perception that products and services by SMEs are of low quality (SMEs, Master Plan, 2012-2020). In addition, Azmi, Abdullah, et al. (2018), stressed that SME entrepreneurs in Malaysia also have limited capacity to larger orders. Supply to large governments and firms is an important step in penetrating market exports. In meeting the needs of the international market, SME entrepreneurs in Malaysia do not have sufficient knowledge and resources. High costs are required for access to the market to meet the needs of the market which requires abundant resources as well as skilled manpower management. In addition, the low volume of SME businesses and the role in obtaining supply chains also impact export potential as they are unable to generate large quantities to achieve economic scale in the purchase of raw materials needed for the export market.

According to a previous study more than 50 percent of SMEs failed within the first five years of operation (Othman, Shaarani, et al. 2019). SMEs in Malaysia are more likely to get bank loans to finance their businesses. In the early stages, they rely on their own savings or cash from friends and family to run their business or enterprise. About half of SME businesses in Malaysia do not have access to credit that is appropriate for their business. Overall, about 70% of all micro, small and medium enterprises in the new market are found to lack access to financing (Kassim, Buang, et al. 2018). Lumpkin and Dess (1996), emphasize that entrepreneurial orientation seems to resemble a strategic form of organization by describing specific processes, practices, and activities that enable firms to build value by engaging in efforts to improve SMEs. Although there are many entrepreneurial orientation studies conducted, many of these studies use the dimensions of Covin and Slevin (1991), and focus on Small and Medium Enterprises (SMEs). Several studies have focused on technology-based SMEs (Arshad et al., Yoo 2001). Chen et al. (2011), describes the importance of entrepreneurial orientation to the growth of a company as well as the economic growth of a country. Some researchers agree that entrepreneurial orientation is an important contributor to a person's success and contributes to healthier business performance (Mohammed Anis et al. 2016; Mahmood and Hanafi 2013; Zainol and Ayadurai 2011). Khan et al. (2015), Rodrigues and Raposo (2011), and Rodrigues (2005), provide evidence that a higher entrepreneurial orientation tends to have superior performance. Therefore, companies need to enable entrepreneurs to survive and successfully compete, especially in changing industries (Teece 2007), especially in small and medium enterprises based on technology affected by rapidly evolving technology platforms. (Rasli et al., 2014)

Next is referring to Entrepreneurial Orientation Theory (EO), consisting of three main dimensions such as risk taking, acting proactively and innovatively as well as having a positive impact on business success. A previous study by Ahmad (2013) found that firms with high levels of EO tend to constantly scan and monitor their operating environment to find new opportunities and strengthen their competitive position. This indicates that the level of EO mastery in the firm can be obtained from SME information. From both practice and research, it is found that many SMEs are interested in obtaining information about their customers and competitors to differentiate their offers and positions. More importantly, in order to obtain external information, entrepreneurs also need to use information about competitors to help them decide to promote and market their products. Based on a marketing mix framework, to determine each marketing decision related to 4P (Products, Prices, Promotions, and Places), which can help entrepreneurs to meet the best needs of their customers and compete more effectively than their competitors.

Most businesses fail because their owners or managers do not have the necessary entrepreneurial knowledge to enable them to manage and operate their business well and effectively (Ropega, 2011). Ropega's statement is in line with what has been reported by Ahmad, Ramayah, Wilson and Kummerow (2010) where they found that competence and entrepreneurial knowledge are strong predictors in the success of a business. Entrepreneurial competence and knowledge can be acquired by engaging in SME development programs conducted by relevant agencies such as SME Corp, TEKUN, MARA, and so on. Statistics presented in the Malaysia State Annual Economic Report, 2018 state that SMEs involved in SME development programs can increase profits and can continue business continuity. Entrepreneurial competence according to Suryana (2003) is a creative and innovative ability that is used as a policy and resource to find opportunities for success. The essence of entrepreneurship is the ability to create something new and different through creative and innovative thinking.

However, some entrepreneurs, defines success as survival or retain business for a long time because it shows the firm more competitive. (Beaver, 2002). This contradicts O'Regan and Ghobadian (2004), who claim that the importance of non-financial measurement is an indicator of SME success. This view is supported by Jennings and Beaver (1997), arguing that money or personal financial wealth is less important because the desire for personal needs, personal satisfaction, responsibility and quality of life are indicators of SME success. This is confirmed by Reijonen and Komppula (2007), as shown in table 2.2

Table 2.2 Business Success and Motives to Become an Entrepreneur

Steps of Success		Motive to be an Entrepreneur	
i.	Product Quality	i.	Good Opportunity
ii.	Customer Respect	ii.	Unemployed
iii.	Job Satisfaction	iii.	Challenging

- | | |
|--------------------------|------------------------|
| iv. Survival | iv. Independent |
| v. Customer Satisfaction | v. Willingness to work |
| vi. Meaningful Work | vi. Education |
| vii. Financial Measure | |

Source: Reijonen & Komppula (2007)

III. FINDINGS

The findings showed that the organization of SME development programs has a significant impact on the success of SME business. A study conducted by Jose (2011), involving 700 entrepreneurs in Spain showed that entrepreneurial competencies divided into ten subscales on opportunities, relationships, analysis, strategy, commitment, reliance, personal, analytics, innovation and operations play an important role in enhancing success business, has a direct and indirect impact on business success. Contrary to that view, Ropegá (2011), emphasizes that most business failures are due to incompetent owners, lack of experience in managing their business and taking drastic actions. Based on Table 3.1, the researcher can see the correlation analysis between all the variables measured reliably. Pearson correlation test showed that SME development programs and business success had a significant positive and very strong correlation relationship ($r = 0.931$, $P = 0.001$) statistically.

Table 3.1 Correlation matrix SME Development Program relationship with the success of SMEs in Malaysia

Item	SME Development Program	
	r	P
Innovative	0.299	0.001*
Proactive	-0.067	0.243
Risk-taking	0.118	0.040*
Autonomy	-0.044	0.447
Entrepreneurship Orientation (EO)	0.155	0.007*
Business Success	0.931	0.001*

Therefore, entrepreneurs need to be involved in SME development programs to ensure that they gain new knowledge, experience, and input to be more efficient in running the business even if they are just operating to market the product. This is because the exposure given to SMEs in these programs is a necessity and makes SMEs more mature in decision making. Barazandeh et al. (2015), through Global Entrepreneurship survey data involving 125 respondents in 50 countries revealed that there is a positive effect of entrepreneurial ability on business success in the early stages of business. This finding is important because it provides entrepreneurs with knowledge on how they market products and gain market network across the country. According to Mahina and Usman (2016) claim that every SME needs entrepreneurial orientation can help them in starting and running a business.

In analyzing the relationship between entrepreneurial orientation (EO) and business success, it was found that entrepreneurial orientation is significant and positive with business success. There are four dimensions studied in entrepreneurial orientation namely innovation, proactive, risk-taking, and autonomy. Innovation has influenced business success in Malaysian SMEs in line with the decisions made by some researchers who found that innovation has a strong and influential relationship with business success (Qian & Li, 2003, Murjan, 2012). SMEs are considered more innovative because of their flexibility, higher ability to adapt and improve, and they move fast and proactively in implementing change.

Table 3.2 Regression Matrix The effect of mediation on entrepreneurial orientation (EO) in the relationship between SME Development Program and SME success in Malaysia

Model		B	Beta	P	95.0% Confidence Interval for B		Collinearity Statistics		R Square	Adjusted R Square
					Lower Bound	Upper Bound	Tolerance	VIF		
1	(Constant)	2.04		0.001*	1.69	2.40			0.17	0.17
	SME Development Program	0.38	0.41	0.001*	0.28	0.47	1.00	1.00		
2	(Constant)	0.70		0.001*	0.35	1.04			0.48	0.47

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SME Development Program	0.22	0.24	0.001*	0.14	0.30	0.91	1.10
Entrepreneurial Orientation	0.55	0.58	0.001*	0.46	0.63	0.91	1.10

*Dependent Variable: Business Success, *Significance P<0.05*

Table 3.2 which is the simple linear regression test showed that SME Development Program with Business Success has a significant positive effect (Beta = 0.41, R2 = 0.17, P = 0.001) and gives an increase of change of 17% (R2 = 0.17) statistically. When Entrepreneurship Orientation is included as a mediator in the model it gives a significant positive effect (Beta = 0.58, R2 = 0.48, P = 0.001) and gives an increase of change of 48% (R2 = 0.48) statistically.

Table 3.3 Impact of entrepreneurial orientation (EO) mediation change

Model		Change Statistics		
		R Square Change	F Change	Sig. F Change
1	(Constant)	0.17	61.19	0.001*
	SME Development Program			
2	(Constant)	0.31	176.04	0.001*
	SME Development Program			
	Entrepreneurial Orientation			

Table 3.3 showed that entrepreneurial orientation is a significant mediator positive (F Change = 176.04, Sig. F Change = 0.001) and has a statistically significant effect of change of 31% (R2 = 0.31).

EO is a determinant for SME entrepreneurs to remain competitive and achieve higher performance (McNaughton, 2002). In response to changing market conditions, SMEs can adapt, develop new ideas, improve existing products / services either through key changes, or minor changes such as innovations from existing product chains (Gehlar, Regmi, Stefanou, & Zoumas, 2009). For survival, SMEs must adapt to an ever-changing industry with technological advances and create new products / services from time to time. A recent study by Murad and Rula (2015), argues that entrepreneurial characteristics such as self-confidence, initiative, freedom and responsibility, risk-taking, need for achievement and experience are entrepreneurial abilities that affect small business success. This shows that entrepreneurs who are able to take risks which is one of the dimensions measured in the entrepreneurial orientation allows the entrepreneur to succeed.

A recent study conducted by Zakaria, Abdullah, and Yusoff (2016) in the Malaysian manufacturing sector showed that there is a positive relationship between EO and business success. Respondents claim that their organization is involved in EO activities, more organizations can increase business success. However, Ngah and Ibrahim (2012) claim that EO is still in its infancy in Malaysia and suggest that more efforts be taken by the government, relevant agencies and entrepreneurs to accelerate innovation in SMEs. This proves and further strengthens the findings of the study made there is a mediation effect in the relationship between SME development programs and the success of SME business in Malaysia.

Table 3.4 Impact of SME Development Program on SME success in Malaysia.

B	95.0% Confidence Interval for B				Collinearity Statistics		R Square	Adjusted R Square
	Beta	P	Lower Bound	Upper Bound	Tolerance	VIF		
(Constant)	2.04	0.001*	1.69	2.40			0.17	0.17
SME Prog	0.38	0.001*	0.28	0.47	1.00	1.00		

*Dependent Variable: Business Success, *Significance P<0.05*

Table 3.4 showed that SME business success has a significant positive effect (Beta = 0.41, R2 = 0.17, P = 0.001) and provides an increase of change of 17% (R2 = 0.17) statistically.

Apart from that, this study was also made to see the importance of SME development program to SMEs in Malaysia in particular, because Malaysia is moving from developed countries towards developed country status, and entrepreneurial development is considered as one of the engines of economic growth and high GDP (NSDC, 2014). Therefore, the results of this study are useful to entrepreneurial agencies in Malaysia to refine and enhance their entrepreneurship development programs, thus having a significant impact on the overall contribution of Malaysian SMEs in turn to the national economy. As a measure to enhance the growth and competitiveness of SMEs in Malaysia lies in the internal and external capabilities of SMEs to enhance the success of their business by engaging in SME development programs which are organized by the government or agencies related to SMEs.

The findings of this study can help relevant agencies identify and provide the necessary programs for prospective entrepreneurs or SMEs in their business operations. Policy makers should also be aware of the fact that, participants in this study, namely SME owners who follow training programs are seen to contribute to entrepreneurial competence. The importance in the field of focus of SME development programs has been identified in this study and is much needed by SMEs and should be given focus by relevant agencies so that more programs are organized. Moreover, the majority of programs among SMEs occur in their business operations (Kerr & McDougall, 1999) or the day-to-day operations they perform. In the Malaysian perspective, relevant ministries and agencies such as the Ministry of International Trade and Industry (MITI), Majlis Amanah Rakyat (MARA) and SME. Corp. needs to design training courses that are more suited to the needs of the industry and viewed from the SME lens.

IV. CONCLUSION

The importance of small and medium businesses for the Malaysian economy is undeniable. As discussed, SMEs in Malaysia play an important role by providing employment opportunities and boosting economic growth. The SME sector has also proven to be beneficial in helping Malaysia achieve sustainable economic growth as it is resilient to the negative effects of global economic challenges that impact the Malaysian economy. Among the important issues in this study most of the respondents of this study are business owners and have only business experience less than three years of operation, the majority are from the services and manufacturing sectors. This shows that SMEs desperately need training and guidance delivered through SME development programs. In this regard, it is fair to say that the services and manufacturing sector is the most important SME sector in Malaysia and the focus of research.

The main contributors to the success of SMEs in this study are entrepreneurial orientation, SME development programs and business success that have received support from the study respondents, namely SMEs in Malaysia. Given the potential shown by the thriving SME sector, the Malaysian government / policy makers have formulated various policies and interventions to promote SMEs in Malaysia and ensure the sustainability and survival of the SME sector in Malaysia in particular. Financial assistance as well as training in the technical aspects of business, marketing and management skills are among the support from the government for this sector. These policies and support have successfully stimulated the growth of this sector. Research on this study has shown that entrepreneurial orientation has a role in ensuring firm management is efficient and effective and can even increase business success. In addition, SME development programs also allow SMEs in Malaysia to compete in the market and reduce the likelihood and probability of business failure. Given the advantages and requirements of this SME development program it is important to provide awareness and knowledge on the importance of SME development programs among small businesses in Malaysia so that firms can benefit from the advantages that have been highlighted in the previous chapter. Furthermore, in the context of SME business in Malaysia, research is done first to see which SME development programs are necessary and suitable for entrepreneurs to participate in Malaysia so that business success can be achieved. For example, knowledge of SME development programs that include access to human capital development, access to markets, and access to financing including management skills training can provide new input to entrepreneurs provided by the government. This research can ensure policy makers can create policies that help entrepreneurs to achieve success.

Capital and financing in increasing productivity are important in determining the viability of a business. With the help and financing obtained from access programs to financing aims to help entrepreneurs continue to engage in the SME industry can indirectly increase the level of ability and capability of an entrepreneur. Cooperation between the government and SMEs can increase the effectiveness and success of SME development programs implemented to ensure its continuity to continue to progress in the long term and further expand its enterprise to a higher level (Azmanirah Ab Rahman, Ahmad Esa & Wan Mohd Rashid bin Wan Ahmad, 2010).

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