

**THE INFLUENCE OF TRANSFORMATIONAL
LEADERSHIP AND COMPETENCE ON SMALL
ENTERPRISE SUCCESS IN MALAYSIA: THE
MEDIATING EFFECT OF INNOVATIVENESS**

NG HEE SONG

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by

NG HEE SONG

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LIST OF ABBREVIATIONS

Abbreviation	Description
AVE	Average Variance Extracted
BHV	Behavioural Innovativeness
CB-SEM	Covariance Based Structural Equation Modelling
CI	Confidence Interval
CR	Composite Reliability
DNA	DeoxyriboNucleic Acid
DV	Dependent Variable
EOC	Entrepreneurial Opportunity Competence
EDC	Entrepreneurial Drive Competence
EM	Expectation Maximisation
SES	Small Enterprise Success
FDI	Foreign Direct Investment
FPR	Financial Performance
IA	Idealised Attribute
IB	Idealised Behaviour
IC	Individualised Consideration
IS	Intellectual Simulation
IM	Inspirational Motivation
LL	Lower Limit
LV	Latent Variable
MTDC	Malaysian Technology Development Corporation

MITI	Ministry of International Trades and Industries
MNCs	Multi-National Corporations
NEM	New Economy Model
NFP	Non-Financial Performance
NSDC	National SME Development Council
NTBFs	New Technology-based Firms
OECD	Organisation for Economic Cooperation and Development
One-way ANOVA	One-Way Analysis of Variances
PLS-SEM	Partial Least Squares Structural Equation Modelling
PRC	Process Innovativeness
PRD	Product Innovativeness
RBV	Resource-Based View
SmartPLS	Smart Partial Least Squares
SME	Small and Medium-sized Enterprise
SME Corp	SME Corporation Malaysia
SMEs	Small and Medium-sized Enterprises
SPSS	Statistical Package for Social Sciences
TEC	Technical Competence
TFM	Transformational Leadership
UL	Upper Limit
VIF	Variance Inflation Factor

**PENGARUH KEPIMPINAN TRANSFORMASI DAN KECEKAPAN KE ATAS
KEJAYAAN PERUSAHAAN KECIL DI MALAYSIA: KESAN
PERANTARAAN DAYA INOVATIF**

ABSTRAK

Penyelidikan ini memberi tumpuan terutamanya kesan kepimpinan transformasi, kecekapan peluang keusahawanan, kecekapan pemacu keusahawanan, kecekapan teknikal ke atas kejayaan perusahaan kecil di Malaysia di bawah pengaruh perantaraan daya inovatif. Berlandaskan pandangan berasaskan sumber dan perspektif keupayaan dinamik, penyelidikan ini membuat satu model konsep untuk mengkaji hubungan tersebut di atas. Penyelidikan juga mengkaji sejauh manakah kesan perantaraan daya inovatif produk, daya inovatif proses, dan daya inovatif kelakuan ke atas perhubungan di atas. Data dikumpul melalui soal selidik berstruktur berdasarkan pelan pensampelan dari pengkalan data perusahaan kecil dengan menggunakan kaedah pensampelan pengadilan, menghasilkan set data sebanyak 178 responden daripada para pemilik merangkap pengurus perusahaan kecil di Malaysia. Data dikumpul melalui soal selidik berstruktur. Data dianalisa dengan menggunakan SPSS dan SmartPLS. Penemuan kajian mengesahkan model ramalan kajian ini dan menyokong limabelas daripada lapanbelas hipotesis. Mereka merupakan a) kepimpinan transformasi adalah berkaitan secara positif dengan daya inovatif produk dan daya inovatif kelakuan masing-masing; b) kecekapan peluang keusahawanan adalah berkaitan secara positif dengan daya inovatif produk dan daya inovatif kelakuan masing-masing; c) kecekapan pemacu keusahawanan adalah berkaitan secara positif dengan daya inovatif produk dan daya inovatif proses masing-masing; dan d) kecekapan teknikal adalah berkaitan secara positif dengan daya inovatif produk, daya inovatif proses daya inovatif kelakuan masing-masing; dan e) daya inovatif produk,

daya inovatif proses, dan daya inovatif kelakuan adalah berkaitan secara positif dengan kejayaan perusahaan dari segi prestasi kewangan dan prestasi bukan kewangan, masing-masing. Dari segi analisa perantaraan, keputusan empirikal ini menyokong secara signifikan lima dari dua puluh empat hipotesis dari hubungan tidak langsung. Meraka merupakan a) daya inovatif kelakuan memberi kesan perantaraan ke atas hubungan kepimpinan transformasi dan kejayaan perusahaan dalam bentuk prestasi kewangan dan prestasi bukan kewangan; b) daya inovatif produk memberi kesan perantaraan ke atas hubungan kecekapan teknikal prestasi kewangan; dan c) daya inovatif proses memberi kesan perantaraan ke atas hubungan kecekapan teknikal dan prestasi kewangan and prestasi bukan kewangan masing-masing. Penyelidikan ini menyokong model kerangka secara separa. Penyelidikan ini membuat sumbangan secara teori dan praktikal terutama sekali dalam mengenalpasti peranan secara signifikan kepimpinan transformasi, kecekapan peluang keusahawanan, kecekapan pemacu keusahawanan kecekapan teknikal dan daya inovatif ke atas kejayaan keusahawanan kecil di bawah kesan perantaraan daya inovatif produk, daya inovatif proses dan daya inovatif kelakuan, secara separa, sejajar dengan kesusasteraan yang sedia ada. Implikasinya adalah pemilik merangkap pengurus kecil perlu membina dan menggunakan lima kecekapan untuk kelebihan daya saing yang mampan di dalam landskap Model Ekonomik Baru di Malaysia. Pendek kata, penyelidikan ini memberi petunjuk yang jelas ke arah pembangunan lima kunci metrik sebagai pengurusan teras untuk meningkatkan tahap prestasi yang lebih tinggi untuk perusahaan kecil di Malaysia.

THE INFLUENCE OF TRANSFORMATIONAL LEADERSHIP AND COMPETENCE ON SMALL ENTERPRISE SUCCESS IN MALAYSIA: THE MEDIATING EFFECT OF INNOVATIVENESS

ABSTRACT

This study predominantly focused the impact of transformational leadership, entrepreneurial opportunity competence, entrepreneurial drive competence, and technical competence on small enterprise success in Malaysia under the mediating effect of innovativeness in product, process and behaviour. Drawing mainly on both the resource-based view and the dynamic capabilities perspective, this study developed a conceptual model to support the relationships. This study also investigated the extent of the mediating effect of product, process and behavioural innovativeness on the four aforementioned relationships. Data was gathered through structured questionnaire from the sampling plan of small enterprise database using purposive sampling method, generating a dataset of 178 respondents as small enterprise owner-managers in Malaysia. Data collected were analysed using both SPSS and SmartPLS. The empirical findings partially confirmed the research model and supported fifteen out of eighteen direct hypotheses. They are : a) transformational leadership was positively related to product innovativeness and behavioural innovativeness respectively; b) entrepreneurial opportunity competence was positively related to product innovativeness and behavioural innovativeness respectively; c) entrepreneurial drive competence was positively related to product innovativeness and process innovativeness respectively; and d) technical competence was positively related to product innovativeness, process innovativeness, and behavioural innovativeness respectively; e) product innovativeness, process innovativeness, and behavioural innovativeness were positively related to financial

performance and non-financial performance respectively. In analysis of mediation, the empirical results supported significantly five out of twenty-four hypotheses of the mediated relationships. They are a) behavioural innovativeness mediated the relationship between transformational leadership and financial performance and non-financial performance respectively; b) product innovativeness mediated the relationship between technical competence and financial performance; and c) process innovativeness mediated the relationships between technical competence and financial performance and non-financial performance respectively. This study partially supported the theoretical framework and made both theoretical and practical contributions especially in identifying the significant role of transformational leadership, entrepreneurial opportunity competence, entrepreneurial drive competence, and technical competence on small enterprise success under the mediating effect of innovativeness in product, process and behaviour, which is partially in congruent with the extant literature. The implication is that small enterprises have to leverage on those five distinctive competences for a sustained competitive advantage in the New Economic Model landscape of Malaysia. In summary, this study provides a key pointer towards the development of the five key metrics as a management core in achieving higher success for small enterprises in Malaysia.

CHAPTER 1

INTRODUCTION

1.0 Background

The issue of Small and Medium-sized Enterprise (SME) development has appeared at the top of the national agenda as Malaysia moves to promote the parallel growth of Multinational Corporations (MNCs) through Foreign Direct Investment (FDI) in export-led manufacturing, and SMEs of all sizes to sustain the current economic growth and industrialisation drive (Mohamed, 2012; Ong, 2012; Penang Institute, 2013). As the competition for FDI intensifies and its influx is unpredictable (PWC, 2012), the Government has identified SMEs as the main thrust of the Malaysia's vibrant economy over the next few years in spurring the endogenous growth and diversifying new landscapes of Malaysia's economic structure (Central Bank of Malaysia, 2003, 2012; MIER, 2012). In fact, over the last 10 years, SME Gross Domestic Product (GDP) has expanded at an average annual growth of 6.6% since 2004, versus 3.1% between 2001 and 2003. This growth is higher than the 5% overall GDP growth (SME Corp, 2014a). In 2013, SMEs' GDP is projected to hover around 5%-6%. This sustained momentum is a testimony to their prominent role in shaping the future of nation's economy.

Indeed, SMEs are more innovative, nimble, flexible and adaptable to change in the marketplace as compared to Large Scale Enterprises (LSEs) (SME Corp, 2013c). As stressed by the honourable Prime Minister Dato' Sri Mohd Najib Tun Haji Abdul Razak: *"The role of SMEs has changed from merely an enabler supporting the growth of multinational companies and large firms operating in Malaysia to*

becoming the nation's future engine of growth" (SME Corp, 2013c, p. 3). This is confirmed by the annual report that Malaysia trade-reliant open economy is buoyed by strong sustained domestic demand (Bernama, 2013). The economy is projected to grow by about 5% on a steady growth trajectory next year, albeit at a moderate pace, thanks to Malaysia Government's flexible policies and far-reaching development strategy. This projection further strengthens the argument that future progress of Malaysia may well lie in the inclusive and sustainable development of SMEs through which small owner-managers' leadership traits and skills, entrepreneurial opportunity competence, entrepreneurial drive competence, technical competence and organisational innovativeness would be the essential ingredients for small enterprise success and growth.

However, if it is benchmarked globally, the current level of SME achievement is not at par with those of the developed countries. Malaysia SMEs have 97.3% of total establishments or companies, 32.5% of GDP, 56% of employment and 19% of export sales in 2012 (DOSM, 2012; Ramasamy, 2014) whereas Organisation for Economic Cooperation and Development (OECD) SMEs have 99% share of total establishments, 40-60% of GDP and 67% of employment (OECD, 2010). Compared regionally, Malaysia SMEs' contribution of GDP is 36% for 2014 (SME Corp, 2015), lagging behind its Southeast Asian peers where the SME's GDP for Singapore, Thailand and Indonesia is 50%, 37.1% and 57.12% respectively (Handayani, Hidayanto, & Budi, 2013; Iqbal & Rahman, 2015; Spring Singapore, 2016; The Star Online, 2012). This shows that it is urgent for Malaysia to address this development gap by fast-tracking the development of SMEs, irrespective of their size, through acculturation of entrepreneurship and institutionalised support programmes centred on knowledge, innovativeness and dynamics of small enterprises for enhancing the GDP

contributions, job creation and export growth (Central Bank of Malaysia, 2003; MIER, 2012). Indeed, SMEs are epitomised as 'engines of growth' by economists despite the contrary views of their relative small firm size and highly fragmented industry.

Taking cognizance of the increasingly bigger role of SMEs in the continued vibrancy and robustness of its economy, Malaysia is well-positioned at the forefront of cultivating a well-connected, entrepreneur-friendly ecosystem across the entire value-chain that simulates discourse and innovative thinking through formal SME development policy. This enables SMEs to take advantage of all the numerous assistance and incentives extended by the Government to aggressively further develop their businesses domestically and look beyond Malaysian shores for business expansion.

Successful vibrant SMEs, which have turned into home-grown large corporations over time, have two distinguishing attributes namely an entrepreneurially visionary leader backed by competent and proficient workforce, and deep distinctive capabilities to drive their businesses forwards and upwards (Ghosh, Tan, Tan, & Chan, 2001; SPSB, 2000). In other words, SMEs, without a doubt, are critical breeding and nurturing grounds or seedbed for LSEs (Kaloo, 2010). SMEs and LSEs co-exist and both play important, but different roles at the various stages of industrial transition (Rothwell, 1989). While SMEs offer auxiliary supports to LSEs and MNCs through outsourcing services. LSEs offer technical assistance through external linkages and vendor development programmes to expand their technical expertise, standards, and eventually enhance their competitiveness (SME Corp, 2015). SMEs can reap the benefits of in-house technical skills and know-how accumulation to upgrade competence and capabilities, share industry know-how, and co-develop technologies alongside industry leaders, and test-bed new commercially viable and innovative

products of good design (Rothwell & Dodgson, 1991). While LSEs are extremely vital for economic health and prosperity, a strong cadre of SMEs across industries is crucial to ensure a diverse economy and social development. Hence, SMEs with adequate competence can play a supporting role in moving large businesses forward.

However, in few cases, today's SMEs do grow to become tomorrow's well-known blue chip companies. Successful LSEs, which started off as small-time businesses, grow into big entities, are actually led by competent owners who transformed their entrepreneurially managed companies into professionally innovative organisations (Chandra, 2003; Charan, Hofer, & Mahon, 1980; Duncan & Flamholtz, 1982; Hofer & Charan, 1984). Learning from rags-to-riches success stories of SMEs-turned-LSEs and -conglomerates like Genting Bhd. founded by the transformational, competent, and innovative leaders like Lim Goh Tong who started as a scrap metal dealer, YTL Corp by Yeoh Tiong Lay as a small contractor (Koon, 2012, p. 285), Globetronics by Michael Ng Kweng Chong and Ng Kweng Moh (Globetronics, 2012), and Nelson's Franchise (M) Sdn Bhd by Nelson Kwok (CGC, 2012, p. 73), they faced enormous operational and technical issues and challenges in the initial years of business, but the founders were supported by their team to lead their transformations of resource-less enterprises with entrepreneurial spirit, courage, determination and hard work. The researcher believes that it all boils down to their strong transformational leadership and core competences in entrepreneurship and technical fields, and innovativeness in product, process and behaviour that are instrumental in growing their family-run organisations to what they are today. Besides, risk-taking propensity, achievement orientation, and performance management are other factors that have contributed to the birth, continuing viability and growth of these major corporations (Fernald, Solomon, & Tarabishy, 2005).

It is recognised that small enterprises possess distinctive characteristics. They are a) are independently owner-managed businesses, b) dependents and ancillaries of LSEs, c) surviving on the fringes of industry and trade, and d) growing organically in stages from owner-operated enterprises, owner-managed enterprises, finally to functional and professional management organisations (Jha, 1994; Mount, Zinger, & Forsyth, 1993). As such, they need to acquire unique leadership capabilities, specialised competence, technological know-how and tacit knowledge that differentiate themselves further from rivals in a sustainable way (Kerr, 2006). Those small enterprises, which are hungry for success for their whole organisation, are often very customer-focused and goal-driven. They would be decisive in doing what it takes to delight even difficult customers in order to successfully grow their small enterprises from start-ups, fast-growth, sustainability, and into global enterprises (Haron, Ismail, Yahya, Khalid, & Ganesan, 2010; Lester, Parnell, Crandall, & Menefee, 2008). Such phenomenal growth is only possible if they possess leadership qualities, entrepreneurial opportunity competence, entrepreneurial drive competence, and technical competence to handle tough technical issues and provide innovative solutions that balance the contradictory and competing demand of top-notch quality, flexibility, dependability and cost (Ferdows & De Meyer, 1990). Small enterprises must be operationally sound and financially well-managed before fixating on growing bigger, without adding significant overheads in their core business operations. While spending time and efforts on internal changes such as cost-cutting and productivity gains, they seem to have not lost their appetite for achievement and growth. This requires a renewed energy and intense focus on diffusion of innovation and enterprise transformations with positive disposition in devising appropriate business models to scale up their business and export overseas. In this aspect, small enterprises can take a

cue from those successful LSEs and invest in skills enhancement in order to be in same league as them. Therefore, firm performance is the focus area by small enterprise owner-managers who are the ground to lead, reduce process flaws, improve bottom-line, thus justifying their reasons of the very own existence (Kuratko, 2006). This is in line with Schumpeter's (1934) entrepreneurial behaviour where the principle goals are for profitability and growth, and the business is only sustained through innovative strategic practices (Carland, Hoy, Boulton, & Carland, 1984).

In Malaysian context, most privately-owned small enterprises are owner-managed business establishments (Hashim & Abdullah, 2000; Saleh & Ndubisi, 2006). Small enterprises are owners who are the managers of their own businesses. Therefore, the central element in this study would be small owner-managed enterprises. The main objectives for conducting this study are to identify and to examine the relationships, between transformational leadership and small enterprise success, and between competence and small enterprise success, both through innovativeness as a mediating factor. A thriving home-grown SME serves as the building blocks of Malaysia large corporations. As such this study is relevant and important where Malaysia has placed greater emphasis on this SME sector. Given the significant role played by SMEs, the present study it intends to answer the following questions: Does transformational leadership have a positive relationship with innovativeness? Does entrepreneurial opportunity competence have a positive relationship with innovativeness? Does entrepreneurial drive competence have a positive relationship with innovativeness? Does technical competence have a positive relationship with innovativeness? Does innovativeness have a positive relationship with small enterprise success? Does innovativeness mediate the relationship between transformational leadership and small enterprise success? Does innovativeness

mediate the relationship between entrepreneurial competence and small enterprise success? and Does innovativeness mediate the relationship between technical competence and small enterprise success?

1.1 Malaysian SME Scenario

Malaysia's economy has evolved from an agriculture-based economy with a GDP per capita of RM1,598.1 in 1972 to becoming a more industrialised and service-oriented economy with a GDP per capita of RM32,124 as at end 2012 (M. Ibrahim, 2013). As Malaysia enters a new stage of economic development from mainly a) factor-driven, b) efficiency-driven, and to c) innovation-driven economy which is structurally based on knowledge and skill, rather than capitals, natural resources or labour (Kirby & Cox, 2006; MPC, 2012; WEF, 2013), entrepreneurship and SME development have become increasingly important than ever with the prime objective of growing the economic pie and addressing the economic differences between various ethnics groups and uplifting the living standards of the middle income group (Fong, 1990). The Government has implemented New Economy Policy (NEP) in 1971 to assist the Bumiputera (Malays and other indigenous groups) to reduce inequality and inter-ethnic economic imbalances. In 1991, this policy was replaced by the National Development Policy (NDP), and in 2001, the National Vision Policy (NVP) was added to address the ongoing issues of poverty eradication, income inequality, restructuring company ownership and control, restructuring employment, the Bumiputera Commercial Industrial Community, and human capital and education (Yusof, 2006). In this regard, the Government has rolled out entrepreneurial initiatives to strengthen the fundamentals of the economy to support short-term economic

resilience and long-term structural foundation with strong emphasis on innovation capabilities and speed or time to market. For this aspect, the Government has set up the Malaysian Global Innovation & Creativity Centre (MaGIC) in April 2014 with a view of transforming Malaysia into a dynamic entrepreneurial nation. Besides, the Government has implemented infrastructure projects and also provided state-led funding assistance which remains a *sine qua non* for SME capability development and productivity improvements.

Malaysia has put in place policy frameworks and national strategy to implement industrial and entrepreneurial development programmes that are driven by higher competence and skills to raise the bar in productivity through process improvements and greater mechanisation (Ahmad & Xavier, 2012; Chee, 1985). For decades, the Government has accorded privileged status to SMEs in terms of national budget allocations and business opportunities as SMEs are recognised the building blocks for long-term economic growth as well as the socio-economic development for poverty alleviation across all sections of the population and as a way of getting the economies out from the middle income trap of mediocrity (Aris, 2006; SME Corp, 2010a). For instance, Malaysia set up the Small and Medium Industrial Development Corporation (SMIDEC) in 1996, National SME Development Council (NSDC) in 2004, and rebranded SMIDEC as SME Corporation Malaysia (SME Corp) in 2009. SME sector development has been embedded into the on-going 3rd Industrial Master Plan (2006-2020), New Economic Model, Tenth Malaysia Plan (2011-2015) to facilitate their participation in key economic activities (10MP, 2011, p. 94; IMP3, 2006, p. 163; NEAC, 2010b). The launch of 2001-2005 SMI Development Plan and SME Masterplan 2012-2020 has aptly signified Malaysia's commitment and enthusiasm to holistically bring SME development to a higher level of achievement

with an quantum jump of GDP from 31% to 41%, 25% in exports and 62% in employment, by 2020, on the premise of innovation, creativity and productivity (SME Corp, 2012b).

Indeed, Malaysia initiatives that have been geared to facilitate the development of SMEs are in tandem with the calls by APEC Business Advisory Council (2012), and also the ASEAN Economic Community (AEC) (2008), a massive market of 600 million people for expanding intra-ASEAN cross-border investments and trade by 2015. There is a great potential for ASEAN SMEs as the ASEAN's combined GDP of USD2.4 trillion constitute 3.23% of the world total GDP, thus making it the seventh largest economy in the world (SME Corp, 2015). The Government is being confronted with the dynamic and dichotomous position between embracing trade liberalisation and safeguarding national interests on the principle of cost benefit analysis to create optimal business opportunities in the country. While, some domestic SMEs can ride the wave of AEC's growth and make significant inroads into foreign markets in this region, others are being squeezed and forced to compete with the big boys in uneven playing fields. Hence, it is imperative for domestic SMEs to strengthen their competitiveness and networks to tap into foreign market, in spite of the presence of political risk, instead of being contended fighting for a slice of the same pie of 30 million people back home (Özsomer, Calantone, & Bonetto, 1997). SMEs need to build up a wide array of capabilities in transformational leadership, entrepreneurial opportunity competence, technical competence and innovativeness, challenging followers to transcend the *status quo* to do something innovative by changing the rules of the game for innovativeness and by transforming their entrepreneurial edges, emerging enterprises, consolidating organisations finally into established organisations (Zheltoukhova & Suckley, 2014).

SMEs keep adjusting their scalable business model through reengineering of technical products and processes, reallocation of resources, reassessment of opportunity and risk, and the best practices, and find new ways to survive the ruthless environment of the free market (Daily & Dollinger, 1992; Lee, Shin, & Park, 2012).

In Malaysia, SMEs are more diversified covering mainly manufacturing, agriculture, services, mining and quarrying and, construction sectors. SMEs play a critical role in nation building and a nation's innovativeness as they account for a lion's share of the establishments, making up over 97.3% of all the establishments that underpinned the expansion of GDP. With the new definition of SMEs effective in 2014, SMEs constitute well over 98.5% of establishments (SME Corp, 2013b). The overwhelming majority of total enterprises truly demonstrate that SMEs are of monumental importance to Malaysia's economy. SMEs' contribution to GDP has increased from 29.4% in 2005 to 32.5% in 2011 (DOSM, 2012) and it is further expanded further to 32.7% in 2012. The Government has to settle the non-formal sector which accounts for 31% GDP against the standard of 14% GDP for developed nation status. In constant 2005 prices, the value added of SMEs rose to RM245.4 billion in 2012 against RM231.5 billion in 2011, an increase of RM13.9 billion. In current terms, SMEs' value added reached to RM305.0 billion in 2012 as compared to RM288.7 billion in 2011 (DOSM, 2013). Meanwhile, there are 645,136 SMEs registered in Malaysia in 2012. For 2015, micro enterprises account for 77% of the total SMEs, followed by small enterprises 20% and medium enterprises 3% for 2012 (DOSM, 2012; Hashim, 2015). By sector, services are the prime movers accounting for 90% (580,356) of SMEs, followed by manufacturing for 5.9% (37,861), construction for 3.0% (19,283), agriculture for 1.0% and mining & quarrying for 0.1%.

Majority of the SMEs were domestically-oriented, with only 16% were exporting their products and services (SME Corp, 2014b). Characteristically, SMEs are, by and large, owner-managed enterprises. SMEs are diversely fragmented but dominated by small family-run businesses (Saleh & Ndubisi, 2006). Jasani (2002) asserted that most of SMEs have strong family affiliation and consider their business to be family businesses and found out that 59% of them are still very much managed by the founder and anchored to the family through funding and employment (Aris, 2006), while 30% are run by second generation, the majority of whom are children of the founder. Buang, Ganefri and Sidek (2013) updated that the figure increased to 65% SMEs being managed by the founder with work experience of more than six and a half years. Ibrahim and Samad (2010) also concurred that family control in Malaysia increased from 57.7 to 67.2% as the cut off level of voting rights increased from 10 to 20%. Malaysian SME sector is arguably a robust and growing market, with some competent SMEs serving high values and niche products to both local and international markets. The HSBC Survey (2011) claimed that about 42% of SMEs in Malaysia is already involved in cross-border trades and in having carved out their niche market. In term of innovation, Alam (2011) revealed that innovation has been embedded into SME organisation's fabric with about 57% of the firms doing some form of innovation. Of this, 18% were highly innovative and 39% were moderately innovative in Malaysia. These developments augur well with the Government's pro-SME policy and institutional cohesion of promoting export sales in innovative products where SMEs are expected to be more outward-looking at global opportunities in abundance.

In line with the Government's aspirations of strengthening the economy and further enhancing the development of SMEs, SME Corp has been tasked to work

closely with the relevant ministries and agencies on investment on mechanisation and automation, new technology, and entrepreneurial education, training and counselling for small business establishments to grow and prosper. SME Corp have rolled out a slew of skills upgrading programmes tailored for SMEs such as SME-University Internship, and SME@University Programme through the *Business Accelerator Programme (BAP)*, and SME Competitiveness Rating for Enhancement (SCORE) which have emphasised on entrepreneurial education and skill development in transformational leadership, entrepreneurial opportunity competence, entrepreneurial drive competence and technical competence, and build self-confidence to venture into growing businesses through innovation, rather than staying small which possibly leads to shrinking of business in today's highly competitive marketplace.

SME Corporation in collaboration with Agensi Inovasi Malaysia (AIM) launched the national technology transfer and commercialisation platform to encourage innovation among SMEs. SMEs can enhance their innovation capability and turn creative ideas into successful products and services in the market, under the High Impact Programmes 2: Technology Commercialisation Platform (SME Corp, 2012b). To achieve this overarching goal, as stressed by the honourable Prime Minister of Malaysia, Dato' Sri Mohd Najib Tun Haji Abdul Razak, "*Focusing will be on creating a new breed of innovative and globally competitive SMEs that are resilient to challenges arising from liberalisation and changing global environment* (SME Corp, 2012b, p. 2)", and are possibly led by high-calibre entrepreneurs who possess transformational leadership skills, drive, innovativeness, tertiary qualifications, and are entrepreneurial spin-offs from large organisations with MNCs experience to lead SMEs (Poon & Teo, 1995; SPSB, 2000) to possibly create the next generations of iconic conglomerates. High performance SMEs are much sought after

by customers, investors and bankers. Policymakers like SME Corp are assisting those SMEs with high-growth potential and proven track record of innovative business products, processes and practices, through the certification of the National Mark of Malaysian Brand that depicts quality, excellence and distinction of products and services, to lift their brand image from being merely Original Equipment Manufacturer makers, Original Design Makers, to becoming Original Brands that are globally-recognised icons, synonymous with new product innovation, quality and customer service excellence (Ong, 2006). In other words, prominent SMEs that belong to a large global supply chain involving MNCs should be groomed into big entities to gain a strong foothold in international markets.

SMEs are riddled with potholes that deter further expansion of their businesses. SMEs are struggling with perennial issues such as escalating business costs, minimum wage, labour crunch, barriers to innovation, a dearth of good technical staff, and gloomy industry's outlook (ACCCIM, 2012; Kee, Effendi, Talib, & Rani, 2011; SME Corp, 2014b). In fact, budding start-ups and fledgling SMEs, which are opportunity driven, are consistently confronted with the threat of failures with the past statistics indicating that about 3.5% of new businesses fail within two years and 54% shut down within four years (Aman Shah & Mohd Ali, 2010), only 10% of start-ups survived beyond 10-year mark (Khoo, 2010), 32-43% ended with failure after 2.5 years of start-ups (Smallbone, 1990), and 28% of start-ups ended in failure within five years (Watson & Everett, 1993). In fact, extant empirical evidence showed that business failures are due to incompetence, inexperience of management, and leadership issue (Graham & Peter, 2005; Griffin, 2012; Haswell & Holmes, 1989), and incompetence in management of crisis (Roepga, 2011), low expertise in management and technical knowledge (Haron et al., 2010), and inability to cope with

the transition from an entrepreneurial style of management to an organised, professionally managed workforce (Khoo, 2010). It is the deficiencies and shortcomings in soft skills in leadership, competence and innovativeness that are holding them back from realising their full potential (Aslan, Diken, & Şendoğdu, 2011; Chandler & Jansen, 1992; Maladzhi, 2015).

While acknowledging the issues plaguing the SME sector are multi-faceted and complex, the present study intends to examine the vital role of transformational leadership and competences in building up innovation capabilities in an organisation in order to achieve small enterprise success. It is beneficial to look into the core constructs and their relationships that have a bearing on the new venture performance and prospects of nascent SMEs in Malaysia. As SMEs are regarded as the backbone of Malaysia's economy, competent small enterprises should utilise transformational leadership skills to move their enterprises forward. They have to make significant changes by adopting new technologies and innovation capabilities. For this, small enterprises should be supported by soft-skill and technical development initiatives to be integrated into the global supply chain to reap economies of scale and scope, and eventually in a better position to support the growth agenda of the national economy and spearhead the transformation projects of SME sector. Creating a successful home-grown and innovative SME sector is precisely what the Government wants to foster as it seeks to reduce reliance on FDI.

1.1.1 Family Business

Amran and Ahmad (2009) suggested that a firm is considered family business when a) the CEO is the founder/ successor or a relative of the founder, or b) there is a

presence of founding family members on the board, or c) if the family control at least 10% of all shares (Mishra, Randøy, & Jenssen, 2001). As highlighted by Tokarczyk, Hansen, Green and Down (2007), familiness qualities are the unique resources that can be turned into competitive advantage by leveraging on execution intelligence of market orientation processes and turning opportunities into fruition (Evers, 2011). In fact, Lee (2006) confirmed that family firms tend to create higher employment and revenue growth over time and are more profitable. Furthermore, the founding families also play an important role in maintaining employment stability during temporary market downturns. Hatak, Kautonen, Fink and Kansikas (2015) revealed that family commitment of moderate level plays a moderating role in stimulating innovativeness for firm performance for family business. Kim, Molloy and Sauer (2008) reported that compared to non-family SME, family-managed SMEs tend to possess in specific competencies in customer service, employees and quality of products. DeNoble, Ehrlich and Singh (2007) insisted that family controlled business needs leadership skills during a succession transition, besides the interpersonal, reputation, credibility-building, and relationship-building skills for success. Langowitz and Allen (2010) found that founding CEOs are significantly more likely to have a proactive disposition and point to the possibility of an indirect effect of that disposition on managerial style. Randoy and Goel (2003) found that founding family leadership (CEO or chair) can moderate the relationship between ownership structure and firm performance (Hanks, Watson, Jansen, & Chandler, 1993).

Although Hashim and Abdullah (2000) asserted that SMEs are predominantly owned and managed by families right from the stage of inception, growth to sustainability (SME Corp, 2015, p. 30). Family-owned businesses or “one-man show” enterprises owned by private individual possess valuable resources such as dynamic

capabilities and idiosyncratic knowledge that create competitive advantage. Small owner-managed SMEs mean a closely held enterprise in which the owners who own a controlling interest in the entity are the same people who run the company. Owner-managers demonstrate agility and prowess through their leadership of their enterprises. However, Holt (2010) argued that owner-managed firms are fundamentally different from professionally managed firms where the absence of business acumen and commercial savvy of SME entrepreneurs can present disadvantages to owner-managed firms. Indeed, Daily and Dollinger (1992) asserted that compared with professionally-managed firms, family-owned and -managed firms exhibit performance advantages as a result of the unification of ownership and control structures. Indeed, Stephan, Hart, Mickiewicz and Drews (2015) argued that businesses started and controlled by autonomy- and family-motivated entrepreneurs stand a better chance of survival and success. And the key driving force is the family values like stability and harmony that holds dear to the family. Such family culture is crucial in establishing mutual trust as they move forward in unison and grow into bigger organisations in the face of stiff competition.

1.2 Preliminary Site Survey

A preliminary site survey was deployed to gather information on the ground on the pressing management issues of SME development and identify key success factors that are affecting their business viability and success of SMEs in Malaysia. A semi-structured form which lists key success factors was used for this purpose. Respondents were asked to rate the following factors based Likert-type scale: 1) Not at All Important, 2) Low Importance ; 3) Slightly Important, 4) Moderately

Important, and 5) Very Important. The factors are 1) Leadership, 2) Innovation, 3) Competence, 4) Reputation, 5) Organisational Culture, 6) Human Resources, 7) Marketing, 8) Competitiveness (Quality, Cost, Flexibility, Dependability), 9) Strategy, and 10) Networking. Four empty spaces are allocated for respondents to fill up their opinion on other success factors if any (F11-F14).

This survey was conducted during the SMIDEX 2013 – SME Annual Showcase on 13 Jun 2013 at KLCC, KL and SOBA Workshop on 14 Jun 2013 at Penang. The researcher randomly approached respondents at SMIDEX counters and SOBA workshop attendees and requested them to fill up the semi-structured survey form (Please see Appendix A – Preliminary Site Survey Form). The results are tabulated in Table 1.1 as follows:

Table 1.1: Preliminary Site Survey Results

Resp.	F1	F2	F3	F4	F5	F6	F7	F8	F9	F10
	Leadership	Innovation	Competence	Reputation	Organisational Culture	Human Resource	Marketing	Competitiveness	Strategy	Networking
1	5	5	4	4	4	5	5	5	4	4
2	3	4	3	3	3	3	3	3	3	4
3	3	4	4	2	3	3	4	2	4	4
4	5	5	4	5	5	4	5	5	5	5
5	5	4	5	3	4	5	3	4	3	4
6	4	4	4	3	3	4	5	4	4	3
7	5	4	4	5	4	4	4	5	5	5
8	5	5	4	4	4	5	5	5	4	-
9	5	5	5	4	3	4	5	5	5	5
10	5	5	4	5	5	4	5	5	5	5
11	5	4	4	3	5	4	4	4	4	-
12	5	4	5	4	5	4	4	4	5	4
13	5	5	5	5	4	5	4	4	4	4
14	4	4	3	4	3	4	4	3	4	3
15	5	5	5	5	4	4	5	5	4	5
16	5	4	4	4	4	4	5	5	4	3
17	5	4	4	4	5	3	3	4	4	4
18	3	5	4	4	3	4	5	5	5	5
Total Score	82	80	75	71	71	73	78	77	76	67

Keys:

The Likert-type scale of degree of importance: 1) Not at All Important; 2) Low Importance; 3) Slightly Important; 4) Moderately Important; and 5) Very Important.

From the survey, leadership which is the ability to influence, motivate, and enable others to contribute towards effectiveness and success of organisation, is rated the most important, followed by innovation. This is then followed by marketing, competitiveness, strategy, competence, reputation and networking. Competence is chosen as a third variable because it is linked to human resource development. These are key in-house resources and capabilities which can be focused and developed for long-term success. This result confirmed the growing importance of these constructs to small enterprise success and also brought legitimacy to the human resource's

assertion that people ‘with the right competencies and skills’ are the most prized assets of any organisation, regardless of firm size and firm age. It is true that behind every enterprising business is the dynamic transformational leadership, entrepreneurial and technical competence, and innovativeness fuelled by small enterprise owner-managers’ tenacity, passion and motivation to succeed and sustain in the current dynamic business environment. Drawing on the resource-based view and dynamic capabilities perspective, these variables have to be upgradable, integrative and distinctive capabilities which are the cornerstone for sustainable competitive advantage.

1.3 Problem Statement

Although SMEs are springing up throughout Malaysia, their proliferation and strength in economy is still weak judging from the share of total establishments, the contribution to national GDP, employment share and export share, in comparison with those of the developed nations and regional competitors as shown in the Table 1.2 (Ho, Ahmad, & Ramayah, 2013; OECD, 2010).

Table 1.2: SME Progress Performance Indicators (SME Corp, 2011, 2012a, 2013c, 2014a)

#	Key Indicators,%	2010	2011	2012	2013 ^e	2014 ^p	2020 ^m	OECD
1	Share of Total Establishments (%)	99.2	97.3	97.3	98.5 ⁿ	-	-	99.0
2	SME GDP Growth	8.4	7.3	6.0	6.4	13.6	-	-
3	Share SME GDP to Overall GDP (%)	32.0	32.8	33.0	33.5	35.9	41.0	50.0
4	Employment Share (%)	57.1	57.3	57.2	57.5	65.0	62.0	67.0
5	Export Share (%)	19.0	19.0	19.0	-	-	25.0	-
6	Value Added Growth of SME (%)	8.0	6.8	-	-	-	NA	-

e: estimate, p: preliminary, m: SME Masterplan, n: new definition

Malaysia SME performance level indeed falls short of expectations of the economic potentialities and prospects if benchmarked globally. These growing disparities are undoubtedly a stark reminder that this gap has serious repercussion to the national competitiveness that needs to be urgently addressed. Unless concerted efforts are made to develop human capital, the target of 41% GDP contribution is likely to remain elusive, and subsequently Malaysia risks being an ASEAN laggard as the market develops. Hence, SME Corp has stepped up its catalytic role in facilitating robust growth and development SMEs through capacity and capability-building initiatives especially in knowledge and skills in transformational leadership, entrepreneurial opportunity competence entrepreneurial drive competence, technical competence and innovativeness. In spite of the integrated support programmes and gamut of the Government's schemes, incentives, and grants, which provide impetus for sustained development, only a handful of SMEs have been successfully growing by leaps and bounds, and subsequently matured and evolved from small enterprises, medium enterprises into large scale enterprises (LSEs). Indeed, SMEs have been

lamenting the difficulty in attracting better-qualified workforce, and lack of technological prowess for their organisations to gain traction, become scalable and eventually go global.

According to data provided by SME Corp, there are merely 56 SMEs which are successfully listed in Malaysia stock exchange from 1996 to 2010 as shown in Appendix B. Having said that, the latest statistics released by SME Corp revealed that out of over 600,000 SMEs which have registered with SME Corp, a total of 120 SMEs have successfully floated their shares with 60 SMEs on Bursa Malaysia, 48 on the Main Market and 12 on the ACE Market (Bernama, 2014). The Government has launched several catalyst programmes like the Grooming Big programme with the Government Linked Companies (GLCs) to groom potential SMEs who score four-star ratings in the SME Competitive Rating for Enhancement (SCORE). Consequently, it is reasonable to say that the effectiveness of above programmes needs management review to be more relevant and accessible, to drive performance improvement across different government agencies (MITI, 2014; SME Corp, 2011). There is a need to intensify the aforementioned programmes among the SME community so that these home-grown companies can participate in the global supply chain and upgrade themselves through acquiring knowledge and skills in transformational leadership, core competence, and the right types of innovativeness in industries. Amidst the gloomy outlook, SMEs have to figure out its focus, strengths, find new ways or challenge the established ways of doing things, have the freedom and opportunity to try new moulds, and develop capacity to think outside the building, than just outside of the box (Kanter, 2012). SMEs cannot sustain their competitive advantage solely on costs alone without recourse to more skills-intensive, knowledge-based and innovation-led initiatives in the long term.

In Malaysia, growth-oriented and entrepreneurial small owner-managers need transformational leaders, not bosses, who help develop a well thought-out vision from practically nothing and shed light during the moment of dark confusion doing everything possible to reduce the chances of failure (Timmons & Spinelli, 2004). The firm growth depends upon substantive enhanced capabilities in transformational leadership, entrepreneurial opportunity competence, entrepreneurial drive competence, technical competence and innovativeness (Saleh & Ndubisi, 2006), and therefore steadfast efforts need to be directed to harness the power of leadership and competence skills to maximise the chance of small enterprise success. While entrepreneurship has been recognised as a key success factor for SMEs (Barney, 1986; Ong, Ismail, & Goh, 2010), small enterprise-manager's competence and innovativeness would play a bigger part in overcoming technicalities for venture performance (Chandler & Jansen, 1992). This issue of competence and innovativeness among SME entrepreneurs becomes urgent as the New Economic Model (NEM) is more entrepreneurial and innovative in a more diversified landscape of economic structure (NEAC, 2010a). Furthermore, the Global Competitiveness Report (WEF, 2012) has identified Malaysia to be weak in technological readiness and such lack of competence is a legitimate concern of Malaysia to deal with the ability to adapt to the rapidly changing operational realities. In fact, SMEs have been advised to acquire hands-on experience and expertise, build firm-specific competencies in small business management to elevate them to the global standard. In other words, they have to comply with stringent requirements of global MNCs standards and embrace good quality culture in order to tap into the integrated global market (SMIDEC, 2007).

The Economic Report (2013, p. 23) outlined that Malaysia employees are weak in leadership soft skills. Likewise, MIM-MPC-AAMO (2010) survey indicated

that average Malaysian score fared 72.0 management capability index (MCI), suggesting that Malaysian management is performing at 72 of its potential 100 capability, and SMEs only 69.1 (Malim, Shahibi, & Halim, 2012; MPC, 2011) which means there is a critical issue of inadequacy of leadership skills in a multi-cultural and multi-ethnic Malaysia (Selvarajah & Meyer, 2008). Given firm size and financial resource constraints, the central issue of developing leadership, competence and innovativeness is rarely a priority as SMEs are preoccupied and obsessed with market immersion opportunities, sales deliveries and competitive pressure of meeting customer expectations to engender customer loyalty and retention (Casalino, 2013; Lefebvre & Lefebvre, 1993).

In fact, Greiner (1972) identified leadership as a first crisis as businesses begin to expand and grow to a size beyond small enterprise owner-managers' mental and physical capacity, thus necessitating varying hands-on approach, leadership capabilities and key competencies (P. Burns, 2011; M. Scott & Bruce, 1987). Small enterprise owner-managers need to move away from micro management and multi-tasking everything to more formal processes, and more functional structure to support specialisation (Hanks et al., 1993). As success for the company really depends on small enterprises' firm leadership, they have to invest in human capital development which has been recognised as one of success factor for SMEs (Arham, Boucher, & Muenjohn, 2013; Central Bank of Malaysia, 2003; Zakaria, Zainal, & Nasurdin, 2012). Transformational leadership which stresses the leader's ability to transform organisations by offering a better future, is proven to be significantly linked to business performance of SMEs (Aziz, Abdullah, Tajudin, & Mahmood, 2013). There are many meta-analyses through surveys, field studies and controlled experimentation which have validated the greater effectiveness of transformational leadership in

contrast with transactional leadership (Bass, 1999). Transformational leadership style is perceived as engaging in more relationship building behaviours than those more task-related behaviours with followers. The transformational leadership style, which inspires management team and display integrity to go beyond their task requirements, is associated with participation in coordinating and integrating activities as opposed to controlling and directing the work of group.

More research on transformational leadership, entrepreneurial opportunity competence, entrepreneurial drive competence, technical competence and innovativeness has received increasingly popularity in the West, particularly in the US and Europe but not so in the developing countries like Malaysia. Hence, the findings obtained from previous studies (Dorfman et al., 1997) based on the Western populations may not be generalised and applied to the population in the developing countries in view of the different social and cultural considerations between these countries. Malaysian has placed particular emphasis on collective well-being and displayed a strong humane orientation within a society that respects hierarchical differences (Kennedy, 2002). To the knowledge of the researcher, research on five integrated constructs namely transformational leadership, entrepreneurial opportunity competence, entrepreneurial drive competence, technical competence and innovativeness and small enterprise success remains limited on SMEs. This study specifically intends to examine if transformational leadership, entrepreneurial opportunity competence, entrepreneurial drive competence, and technical competence have any impact on innovativeness; innovativeness have any impact on small enterprise success; innovativeness mediate the relationship between transformational leadership and small enterprise success, the relationship between entrepreneurial opportunity competence and small enterprise success, the relationship between