

**STIMULATING MALAYSIAN SME
PERFORMANCE: THE SYNERGISTIC ROLE OF
ENTREPRENEURIAL CAPITAL,
ENTREPRENEURIAL COMPETENCIES AND
INSTITUTIONAL SUPPORT**

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by

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**MERANGSANG PRESTASI PKS MALAYSIA: PERANAN SINERGISTIK
MODAL KEUSAHAWANAN, KOPETENSI KEUSAHAWANAN DAN
SOKONGAN INSTITUSI**

ABSTRAK

Kajian ini bertujuan melihat kesan sinergi modal keusahawanan, kompetensi keusahawanan dan bantuan kerajaan kepada prestasi perusahaan kecil dan sederhana (PKS) di Malaysia. Berasaskan model kompetensi keusahawanan dan teori institusi, tujuan kajian untuk menyediakan rangka kerja teori yang mantap untuk meneroka kesan modal individu (modal insan dan rangkaian), kebolehan individu (kompetensi keusahawanan) dan sokongan kerajaan (kegunaan) kepada Prestasi PKS (kewangan dan bukan kewangan). Setakat ini, kajian terdahulu hanya melihat penyumbang kepada prestasi secara berasingan dan menghasilkan keputusan yang tidak seragam. Tujuan kajian ini adalah usaha membetulkan percanggahan yang ada dan memberi penjelasan yang lebih komprehensif kepada faktor penentu prestasi usahawan. Kerangka kajian dibentuk untuk mengenal pasti dan menilai faktor-faktor yang memberi kesan kepada kecekapan kompetensi usahawan dan prestasi PKS. Teknik kaji selidik melalui laman sesawang digunakan untuk mengumpul data daripada pemilik/pengurus PKS. Dua ratus empat puluh enam set jawapan yang boleh digunakan telah diterima dan seterusnya dianalisis menggunakan prosedur statistik yang bersesuaian. Model kajian diuji menggunakan teknik kuasa dua terkecil separa (PLS). Perisian SMARTPLS 2.0 M3 dan makro SPSS “PROCESS” digunakan untuk mengesahkan model kajian dan menguji hipotesis penyelidikan yang dicadangkan.

Satu hasil analisis mengesahkan bahawa modal usahawan iaitu modal insan khusus, perhubungan individu dan rangkaian sosial, tidak mempunyai pengaruh secara langsung ke atas prestasi PKS. Walau bagaimanapun, endowmen individu membantu dalam meningkatkan kecekapan keusahawanan seseorang; iaitu strategik oportunis, pembelajaran dan kecekapan sosial. Apabila usahawan mendapat lebih banyak pengalaman, berhubung dengan usahawan lain dan juga mendapat maklumat daripada persekitaran, mereka akan meningkatkan kecekapan keusahawanan dan seterusnya meningkatkan prestasi firma. Satu lagi penemuan penting ialah sokongan kerajaan tidak memberi sebarang kesan terhadap hubungan antara kompetensi dan prestasi. Penemuan ini menunjukkan usahawan yang lebih bergantung kepada kebolehan mereka sendiri dan endowmen. Manakala mekanisme sokongan kerajaan dianggap kurang memberi impak kepada perniagaan mereka. Satu sumbangan daripada dapatan kajian ini ialah kompetensi boleh diajar. Usahawan mampu mempelajari kompetensi, walaupun bukan melalui pendidikan formal. Pembuat dasar, pengamal dan institusi yang berkaitan boleh mendapat manfaat daripada kajian ini kerana kajian ini akan mengetengahkan cara di mana kecekapan boleh dipertingkatkan. Kajian ini juga membincangkan kepentingan sokongan kerajaan dalam meningkatkan lagi prestasi dan sumbangan sektor PKS.

**STIMULATING MALAYSIAN SME PERFORMANCE: THE SYNERGISTIC
ROLE OF ENTREPRENEURIAL CAPITAL, ENTREPRENEURIAL
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ABSTRACT

This study looks at the synergistic role of entrepreneurial capital, entrepreneurial competencies and government assistance on the performance of small medium enterprises (SME) in Malaysia. Grounded in the model of entrepreneurial competencies and the institutional theory, the study provides a robust theoretical framework for exploring the impact of individual capital (human and network), individual abilities (entrepreneurial competencies) and government support (usefulness) on SME performance (financial and non-financial). Thus far, previous studies have looked into these contributors to performance in isolation to one another and results have been inconclusive. This thesis reconciles these discrepancies and provides a more comprehensive explanation to the entrepreneur-performance puzzle. A research model is developed to identify and evaluate the driving factors affecting entrepreneurs' competencies and SME performance. A web survey technique is employed to collect data from SME owner-managers. Two-hundred and forty-six usable responses were received and further analyzed using the appropriate statistical procedures. The research model is tested using the partial least squares (PLS) technique. SMARTPLS2.0M3 is used to validate the research model and test the proposed research hypothesis. The results confirm that entrepreneurs' capital i.e. specific human capital, relational capital and social network, do not have a direct influence of SME performance. However, individual endowment helps in enhancing one's entrepreneurial competencies, namely strategic-opportunistic, learning and

social competencies. As entrepreneurs gain more experience and being connected with other entrepreneurs as well as gaining information from the surround environment, they would improve these competencies and subsequently the firm performance. Another important finding is that government support usage was not found to moderate the competency-performance relationship. One contribution from this study is that competencies could be taught and learnt. Policy makers, practitioners and relevant institutions could benefit from this study because this study will highlight ways in which competencies are enhanced and also the significance of government support in further improving the state of the SME sector.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Entrepreneurship has taken center stage in many economies, be it developed, less developed or developing economies. One obvious outcome of entrepreneurship is the establishment of small medium enterprises (SMEs). Research into Small-Medium Enterprises (SMEs) has grown in the last decade. This is because SME constitute the majority of business establishments in any economy. In Malaysia, the SME sector is one of the most important sectors that can contribute significantly to economic growth (97.3% of business establishments are SMEs). The focus began after the launching of Malaysia's First Industrial Master Plan (1986-1995) that was an early effort to support the nation's industrialization.

The focus on SMEs is due to the fact that SMEs collectively has potential source of economic growth and poverty reduction, which has driven all policymaker and academics from all economies to be interested in trying to find the factors that drive entrepreneurial dynamics, particularly in the entry and growth of enterprises. The Malaysian government has, since the country's independence, been heavily involved in the development of entrepreneurial activities, which essentially began with the need to develop industrialization as well as to encourage indigenous people to be an active part of the country's economy S. Abdullah and Muhammad (2008); (Yusof, Mohd Nor, & Edward Hoopes 2014). New Economic Policy, the Malaysia Plans and

the New Development Policy have included efforts to encourage entrepreneurial activities among Malaysians. The Tenth Malaysia Plan, for example, incorporates various training programs and financing initiatives outlined to help develop SMEs to become more competitive (*10th Malaysia Plan* 2010) . The government also takes SME development seriously as demonstrated by the establishment of the SME Development Council chaired by the Prime Minister and the establishment of SME Corp in 2010.

In the Malaysian context, the government has given SMEs one of its main priorities as it recognizes the importance and the extent of SMEs' contribution to the local economy. Billions of dollars have been spent on training, development, funding opportunities, consultative provision, infrastructural assistance and grants, all in efforts to improve and encourage participation in SMEs. Even at tertiary level, graduates are now equipped with some level of entrepreneurship knowledge and skills to enable them consider self-employment.

There are reasons for the attention given to this sector of the economy. SMEs have been coined as “the engine of economic growth”. SMEs play a significant role in any country's economy and existence of which, is essential in any type of economies. Therefore, there is a need for a greater understanding of SMEs as drivers of economic growth. The role of entrepreneurship includes driving innovation, promoting economic development and encouraging economic growth (Busenitz, Gomez, & Spencer 2000) and also poverty alleviation as well as improvement of standard of living (Ahmed & Chowdhury 2009; Rahman, Alam, & Kar 2013). Focus on small business sector is also imperative because a healthy small business sector

will ensure 1) smooth transition from small enterprises to medium and larger firms 2) help reduce unemployment rate 3) provide a healthy competition to any economy. The role smaller business sector plays meet different economic objectives for any economy; more advanced economies depend on smaller business sector to generate innovation while less advanced economies, smaller business sector provide source of income to reduce poverty. Importance of entrepreneurship in any economy varies from innovation, social mobility, improve social standing, job creation and wealth accumulation (Kim, Aldrich, & Keister 2003).

1.2 Research Background

With regards to entrepreneurial research, focus is on the how SMEs achieve success i.e. investigating the factors that affect the SME performance. Researchers have carried out many researches on the performance of SMEs. A well-performing SME sector can potentially create new jobs, increase trade and consequently improve GDP. Therefore, an understanding of the factors that could bring about better SME performance is needed. The performance of smaller business sector is on the agenda of economies because of its contributions. In Malaysia, the SME sector contributes to a meager 35.8% to gross domestic product (GDP) (Jabatan Perangkaan Malaysia 2015) and 57.5% to employment. Taking into consideration the size of the sector (97.3% of business establishments), this contribution could still be improved. Furthermore, Malaysia aspires to be a high income nation, therefore SME need to progress to contribute more to GDP (in high income nations SMEs contribute 51% to GDP).

It has been suggested that the state of economic development does influence the willingness of individuals to become entrepreneurs; where more developed economies do because of opportunity while lesser-developed do it because of necessity (Wennekers, van Stel, Thurik, & Reynolds 2005). Researchers have suggested the possible factors to SME performance, which could be either those of internal (individual and organization), external (such as the environment and the government) as well as combination of internal and external factors. However, despite the attention, there still lack comprehensive framework that could explain how SMEs perform (Dobbs & Hamilton 2007; Hansen & Hamilton 2011).

In the case of SMEs, the owner-managers play a major role in determining the how the enterprise would turn out. Studies of business organization were mostly done on large organizations (Liberman-Yaconi, Hooper, & Hutchings 2010; O'Regan & Ghobadian 2004). However, SMEs are not “miniatures of large organizations” (Reijonen 2008). The influence of the entrepreneur is strong in smaller ventures. In order to survive and grow, SMEs need to be able to change and adapt as external challenges arise. Improved understanding of their operating environment can assist SMEs to meet the performance expectations of their owners and their respective governments.

Nurturing SMEs in any economy promises many benefits, considering their characteristics that include labor-intensive, income-generating possibilities, capacity to save capital, usage of local resources as well as low reliance of exports. SMEs are also known to be more flexible and can provide linkages between different sectors of the economy, all of which will put any economy at an advantage if the sector

flourishes. There are two ways in which research on factors affecting firm growth and performance can be viewed; those looking at external factors; for example the role of government, and those looking at internal factors; for example the factors related to the organizational and individual entrepreneurs. Without negating the important role of external business environment, it is important to note that the entrepreneurs are the active element in any venture, in which their actions and inactions will enhance the performance of the venture and minimize the negative impact of the environment (Ahmad & Shen 2009).

Since the entrepreneur is the key component all through the entrepreneurial process of start-up, survival and success, his or her attitudes and behaviors are expected to greatly affect the entrepreneurial process (Baoshan, Kan, & Baoshan 2009). The focus on entrepreneurs is because they are the individuals who create and seize opportunities, while pursuing their own personal goals and risking their personal and professional lives in the face of uncertainties (Constant 2009). By venturing into self-employment via small businesses, entrepreneurs can help alleviate poverty, job creation, contribute to economic growth, all of which lead to various economic and social improvements.

One avenue of finding factors that could be associated with performance is via personality of the entrepreneur, which is intended to find the personality traits that are most associated with success and those with failure. However, this approach was problematic due to inconsistencies in usage of personality, the static nature of personality, obsolescence of personality theory and biased American samples. Use of personality characteristics is said to produce a generic “everyman” (Gartner 1988).

Additionally, the traits approach has been well researched (Sadler-Smith, Hampson, Chaston, & Badger 2003). In this light, studies linking personality to entrepreneurship had even been suggested to be abandoned (Zhao & Seibert 2006).

The behavioral approach is another aspect through which entrepreneurship studies have been pursued. The idea behind this approach is that it is more important to inquire what the entrepreneur does rather than indulging in his or her traits (Rauch & Frese 2000). This leads to the competency approach, which is the art of studying the characteristics of individuals leading to effective or superior performance (Man & Lau 2005). Competencies reflect the “sum of experiences and knowledge, skills, traits, aspects of self-image or social role, values and attitudes a manager has acquired during his/ her lifetime” (Viitala 2005), whereas capabilities are the ability to apply both skills and competencies in a particular context that could add value. These definitions imply that competencies are all-encompassing pre-requisite for managers generally and entrepreneurs, particularly.

Spencer and Spencer (1993) describe competencies as “motives, traits, self-concepts, attitudes or values, content knowledge, or cognitive or behavioral skills – any individual characteristics that can be measured or counted reliably and that can be shown to differentiate significantly between superior and average performers, or between effective and ineffective performers” (p.4). This study is an effort to find the factors that could create entrepreneurial competencies, as initiated by Bird (1995) “..entrepreneurs will learn from their experience in venturing as well as other forums and this learning will expand and/ or deepen competence” (p.52). SMEs operate in an

environment where owners are also the managers of the ventures and the performance of the firm lie heavily on the owners' capital and their competencies.

The importance of financial and non-financial capital in business ownership is undeniable. For SME owners, achieving business success may not be limited to meeting financial indicators. Of equal importance is the non-financial indicators that complement the financial performance particularly in terms of the variety of capital, the amount of capital possessed and available to entrepreneurs, all of which are influential to business ownership experience as well as its performance (Shaw, Lam, & Carter 2008). According to Bourdieu (1986), there are several types of capital and these capital can be converted into another type of capital. Cultural capital, for example, is convertible into economic capital in certain conditions. This interplay among capitals was again reiterated by Shaw et. al., (2008) in which suggested a dynamic relationship between capitals and attention should move away from examining the capitals individually.

Possession of capital alone is inadequate in ensuring SME long term success; even though it is acknowledged that the availability of entrepreneurial capital would, to some extent, increase the likelihood of success. This research advocates the capability-effect of firm performance which believes that firm performance is brought about when the entrepreneurs have important resources and these resources help entrepreneurs gain the needed capabilities, as opposed to the wealth-effect where firm performance is brought about by ability to access financial resources (Colombo & Grilli 2005). According to Man and Lau (2005) that mere possession of individual capital may not guarantee performance, but the use of capital as well as being competent to perform one's job is crucial. In managing the business,

entrepreneurs normally engaged in three distinct roles; (i) managerial role, entrepreneurial role and technical-functional role (Gaylen N Chandler & Jansen 1992; Mitchelmore & Rowley 2010). In carrying multiple roles, entrepreneurs must equip themselves with certain types competencies, often refers to, in the context of SMEs, entrepreneurial competencies.

This thesis advocates the meaning of competencies forwarded by (Boyatzis 2009), which were defined as capability or ability, those behaviors that are related to successful performance. For entrepreneurs, it entails behaviors that are associated with successful entrepreneurship. An individual can achieve maximum performance at a job or task when his or her capabilities or talents suit the demands and roles of the job, and these capabilities can be influenced by the organizational environment (Boyatzis 2009).

The preceding discussion indicated that entrepreneurs need individual capital and competencies to run their businesses. Previously, studies have looked at competencies and entrepreneurial capital in isolation. This thesis advocated the extent to which entrepreneurial capital influence entrepreneurial competencies and how these affect the SME performance.

1.3 Problem Statement

This study addresses the main issue surrounding entrepreneurship, which is how the business performs. Smaller businesses are also known to face liability of smallness and that they lack physical and financial resources. Therefore, it is imperative that smaller businesses strive to gain intangible resources, such as knowledge and

relations. Overcoming the liabilities of smallness, there is a need for SME to realize that they need to “compete with resourcefulness rather than resources” (Manolova, Manev, & Gyoshev 2010). Particularly for SMEs, this business sector is usually run by their owner-managers.

Among SMEs, failures still take place and problems prevail. Jamak, Salleh, Sivapalan and Abdullah (2011) indicated that only 10 percent of SMEs went past the 10-year mark. According to a SME Corp, Malaysian SMEs is characterized by 1) low productivity, where there is a significant productivity gap between the smaller and the bigger enterprises; 2) the business formation is lower than that of higher income nations; 3) there is small number of enterprises that contribute bulk of the SME contribution to GDP and 4) the existence of informal sector (those unregistered, non-tax-paying enterprises) (SMECorp 2012). The report further stated that among firms that existed in year 2000, 42 percent of them ceased to exist by 2005, translating to a rate of 58 percent. SME Corp’s report shows that Malaysian SMEs’ contribution is still underrepresented in terms of employment (57.5 percent), GDP (33.1 percent) and total exports (19 percent).

It is well understood that out of the large number of start-ups, only a handful would survive and grow into successful firms (Cassar 2006). Many SMEs fail within the first five years of operations (Jaafar, Abdul-Aziz, Maideen, & Mohd 2011). It was found by Stoke and Blackburn (2002) that among small business owners, 48 percent of them admitted that the businesses were in ailing condition. When entrepreneurs start and run their businesses, they not only create income for themselves, they do so

for others. Having successful SMEs would mean an increase in per capita income of the local community and subsequently increase national income.

Additionally, startups in Malaysia also lack sustainability and profitability, mostly due to lacking skills and abilities. According to www.innovationiseverywhere.com, the SME startup failure rate among the OECD countries is 48% on average, versus 60% in Malaysia. Malaysian SMEs occupy 57.5% of the workforce (77% in OECD countries), but account for only 33.1% of GDP (54% in OECD countries). A survey on SME competitiveness done by the Dhurakij Pundit University Research Centre (DPURC) in 2012, among five ASEAN countries (Vietnam, Indonesia, Phillipines, Thailand and Malaysia), Malaysia is ranked the fourth out of the five countries. This could explain why SMEs in Malaysia face difficulties in moving beyond their current firm size. Based on the information from SMECorp (2012), Malaysian SMEs are less likely to grow beyond the current size. Despite the fact that 14 percent of the SMEs did progress bigger during the survey period, the same portion of SMEs were closed down (16 percent) while another 14 percent experienced reduced in their size, both of which pose a problem. This situation could be attributed to the lack of confidence and lack of perceived capability in entrepreneurship; and an evidence of lacking in competitiveness. Entrepreneurship in the country is still considered low (total entrepreneurial activity among the lowest in the region). Additionally, startups in Malaysia also lack sustainability and profitability, mostly due to lacking skills and abilities (www.gemconsortium.org).

Although the government has set up major economic plans to increase business ownership of the people, the outcome is much less than desired (F. Abdullah, Hamali, Deen, Saban, & Abdurahman 2009). Provision of support in terms of

monetary and non-monetary by the governments has been seen as a potential deterrent to competitiveness of SMEs as it encourages over-dependence (Ahmad 2007). Despite the available help, there is still a low level of entrepreneurship in the country, as compared to Malaysia's counterpart. This could be seen from the fact that Malaysia still is behind medium-income countries in GDP-contribution of SMEs (Malaysia 35.9 percent and middle-income countries – 39 percent). Collectively, SMEs make up a large portion of business establishments in Malaysia (97.3%). If the sector is not well-developed or worse, face failure, this can negatively impact the economic situation of the country and be detrimental to the society (F. Abdullah et al. 2009). Since SMEs has been coined as the engine of economic growth, failure to help SME owners would not enable Malaysia's aspiration to become a high income nation and that development of the local community could well be halted.

As Malaysia aspires to become high-income nation by 2020, one of the efforts to reach that would be to revamp the SME sector. Opportunities of further development are still wide for Malaysian SMEs that is viewed as the enablers of the economy to bring Malaysia into a high-income nation. One strength of SMEs is that are more resilient than others, as seen from the 2008/ 2009 economic correction (SMECorp 2012), which means that with the SMEs have the potential to improve and bring Malaysia to where it aspires to be by the year 2020. The table below exhibits the percentage contribution of SMEs between Malaysia, Hong Kong, Japan and Singapore.

Table 1.1

Percentage Contribution of SMEs

		Share to total employment (%)	Share to GDP (%)	Share to total establishments (%)
Malaysia	(Jabatan Perangkaan Malaysia 2015)	57.5	33.1	97.3
Hong Kong	(Chen 2012)	40	58	99
Japan	(Hafeez, Shariff, & Mad Lazim 2013)	71	55.3	99.7
Singapore	("Grow Your Business" 2015)	70	50	99

We can conclude from the table below that for Malaysian SMEs despite constituting a high share of establishment its contribution to economic growth is still considered small. Further, taking into consideration high-income nations has SMEs contributing 51 percent to their GDP.

It is pertinent that SME entrepreneurs be equipped with the relevant abilities to carry out various entrepreneurial roles. These abilities, or competencies, are needed to help entrepreneurs wade through business challenges. Therefore, the idea forwarded by this study is that for SMEs to progress, despite availability of external support, factors related to the individual entrepreneurs must be “progress-friendly”. In other words, for entrepreneurial ventures to perform, entrepreneurs need to be equipped with abilities and resources first, and any support sought would serve as a secondary help to enhance performance.

As Aldrich and Martinez (2001) assert, it is a big challenge for scholars to understand why some entrepreneurs succeed in business while some others do not. Despite the fact there have been many previous researches that have delved into factors affecting SME performance and success. Therefore, the central thesis of this

study is to initiate a framework that would improve explanation of how SMEs perform and the factors affecting it, taking into consideration entrepreneurs who are equipped with the individual human and social capitals both of which will influence their abilities (manifested in their competencies) and subsequently will influence the venture performance.

Research examining business performance factors can generally be divided into those examining external factors i.e. government, industry, social and environment , external resource providers (e.g. Fischer & Reuber 2003; Zhang & Si 2008); and those examining internal factors i.e. organization and the entrepreneur (e.g. Ahmad, Ramayah, Wilson, & Kummerow 2010; Gaylen N Chandler & Jansen 1992; Lerner, Brush, & Hisrich 1997). However, the results of the studies have been mixed. Issues include different factors affect different types of performance measures (Gaylen N Chandler & Hanks 1994b) lack of causal relationships among variables and lack of multi-level variables (Aldrich & Martinez 2001). A more recent study indicated that there is no consensus as to the factors that contribute to SMEs' success (Benzing, Chu, & Kara 2009; Siow, Singh Bhatia, & Anwar 2011). For example, in Man, Lau and Chan (2002) the factors found to influence performance of SMEs are entrepreneurs' personality, one's managerial skill and technical know-how, while Karpak and Topcu (2010) success of SME entrepreneurs are brought about by the collective impact of entrepreneur-related factors and factors that are external to the entrepreneurs such as the government and institutional support.

The focus on entrepreneurs' internal characteristics is even crucial (Ahmad 2007) because by focusing on internal factors particularly on the factors related to the

entrepreneur, one is examining the “gatekeeper” who enables the internal resources of the venture to be used in order to achieve certain level of success (Ahmad, Ramayah, et al. 2010). The entrepreneur’s demographic, psychological and behavioral characteristics, as well as his or her managerial skills and technical know-how are often cited as the most influential factors related to performance of an SME (Man et al. 2002). Therefore, this study primarily focuses on the sources of these entrepreneurial skills and know-how. People and leadership issues were quoted as the primary causes of organizational failures while technology, finances and government regulations were secondary (Longenecker, Simonetti, & Sharkey 1999; Teng, Bhatia, & Anwar 2011).

The role of entrepreneurial capital is important in determining SME performance. Nonetheless, the relationship of capital/ resources to performance is mixed. For example, (S. Coleman 2007) in her study involving the U.S small firms found that among men and women, financial and human capital impact performance different. In addition, Rauch and Frese (2000) found only little relationship between capital and success and further suggested that human capital impacts to success via some forms of behaviors and goals. Although researchers have generally agree that human capital is essential to entrepreneurial success, its impact on success appear to be smaller than other factors like personality and entrepreneurial orientation (Unger, Rauch, Frese, & Rosenbusch 2009). It has been suggested that human capital’s effect could be higher in conditions where moderators are included, such as those suggested by Unger et. al., (2009),

Drawing on Moran (2005) contention, this study proposes a relationship between the types of capital one owns and entrepreneurial competencies and how they impact venture performance. Human capital and social capital represents resources that entrepreneurs own and what matters here is the action taken by entrepreneurs with the ownership of certain resources (Rauch & Frese 2000). Specifically, this study examines both direct and indirect effects of two types of entrepreneurial capital namely human capital and social capital on SME performance, through influencing the entrepreneurial competencies.

Business performance is brought about by necessary competencies of the entrepreneurs. Bird (1995) suggests that in understanding competencies and in an effort to help develop competencies, one must know the antecedents of competencies. Although it is crucial to evaluate competencies of entrepreneurs to enable better understanding of their success or failure factors, it is also important to examine the antecedents of the competencies as it would help in shaping potential intervention by necessary parties. This study examined the synergistic role of entrepreneurial capital and entrepreneurial competencies which are believed will enhance SME performance. The interactions between resources were examined.

External factors that influence ventures' performance include the government, the industry as well as the environment in which SMEs are located. In a developing economy, economic activities are to a large extent influenced by the institutional factors such as the political and economic conditions and infrastructural factors (Rooks, Szirmai, & Sserwanga 2009). In the Malaysian context, as an emerging economy, the government plays a big role in setting the economic directions (S.

Abdullah & Muhammad 2008). The Malaysian government has taken the initiatives to introduce and support various programs, such as marketing programs, advisory services, loans and human capital building to help ensure the survival, continuity and competitiveness of local SMEs. The New Economic Policy, the New Development Policy and the Tenth Malaysia plan, have not only include entrepreneurship development as its objective, but increased efforts have been evidenced as the years progressed and as the importance of entrepreneurship in SMEs become more prominent.

1.4 Research Objectives

Based on prior discussion, this study proposes a theoretical model that is hoped to better explain the variables that will affect SME performance. Specifically, the objectives of this study are as follows:

1. To examine the relationship between entrepreneurial capital (specific human and social capital) and SME performance
2. To examine the relationship between entrepreneurial capital (i.e., specific human capital and social capital) on entrepreneurial strategic-opportunity competencies, entrepreneurial learning competencies and entrepreneurial social competencies
3. To examine the effect of entrepreneurial strategic-opportunistic competencies, entrepreneurial learning competencies and entrepreneurial social competencies on SME performance
4. To explore the mediating effect of entrepreneurial strategic-opportunistic, social and learning competencies on the relationship between entrepreneurial capital and SME performance

5. To examine if SMEs' performance has impact when government support mechanism is included

1.5 Research Questions

Generally, this study is driven by the question “why do some entrepreneurs’ perform better than some others?” The proposal argues that performance of SMEs is not only attributable to the capital owned by entrepreneurs, in this case, human and social capital, but it should be equipped by the necessary institutional support and competencies. Accordingly, the following research questions will drive the research:

1. Do entrepreneurial capitals (specific human capital and social capital) influence SME performance?
2. Does entrepreneur’s capital influence entrepreneurial strategic-opportunistic competencies, entrepreneurial learning competencies and entrepreneurial social competencies?
3. Do entrepreneurial strategic-opportunistic competencies, entrepreneurial learning competencies and entrepreneurial social competencies influence SME performance?
4. Do entrepreneurial strategic-opportunistic, social and learning competencies mediate the relationship between entrepreneurial capitals and SME performance?
5. To what extent does the usage of support mechanism influence the SME performance that is equipped with capital and competencies?

1.6 Significance of the Study

It is expected that this research will contribute to the literature in several possible ways. Firstly, the model presented here shall support the idea that the entrepreneur is

the main focus in determining venture performance. Despite the availability of external help as well as external conditions surrounding an enterprise, the entrepreneur plays a significant role in steering the venture to success.

Secondly, the study will present the possible sources of entrepreneurial competencies. It is important for entrepreneurs to be able to take necessary actions and portray certain behavior to be able to run and manage their ventures, and this ability is argued to come from his or her education, experience as well as the people whom he or she is on contact with.

Thirdly, despite the common understanding that institutional support is needed to improve SME performance, SME owners appeared to use their individual capital and entrepreneurial competencies to run their businesses. It could be that those with assistance did not benefit from the external help. This is not new as previous studies have found that SME owners did not improve their competitiveness. One explanation could be that the SME owners are more likely to depend on the assistance and that they feel that they do not need to work hard as their counterpart without assistance.

Next, the study examined a model that better explain why some SMEs perform better than others. Each entrepreneur is endowed with different levels of human and social capital and each behaves differently in their organization. The framework presented in this study explained how entrepreneurs can gain the necessary knowledge to help them improve and develop the necessary competencies.

From a theoretical perspective, this study adds new knowledge to the field of entrepreneurship. Specifically, it seeks to explain and understand the role of human capital and social capital in entrepreneurs' competencies development along with the role of institutional support in determining SME performance. This study explained the secondary role of governmental support to SME performance.

From a practical point of view, this research will shed light on what it takes for entrepreneur to run their venture, with particular focus on the importance of entrepreneurial capital, institutional support and entrepreneur's competencies. This study adds to the importance of the entrepreneurs as the main driver to SME performance. Entrepreneurs are individuals who gather resources and create something new and different and add value through constructive ideas with the aim of increasing the wealth of individuals and develop them for the prosperity of society. This study shed light on the role of previous knowledge and external relationships on improving the performance of SMEs. This study also intended to inform the relevant authorities of the impact of policies and support on SME performance has made thus far. Considering the support and effort by various institutions to help entrepreneurs improve themselves, it was found that the entrepreneurs' usage of government support did not impact performance of SMEs.

1.7 Organization of Chapters

This proposal is organized into five chapters. This first chapter presents the research background and the problem statement of the study. Based on the background and problem statement, the related research questions and research objectives are advanced. In this chapter, the significance of the study is also discussed.

The second chapter provides a review of the literature relating to SME development in Malaysia, entrepreneurial capital, competency, SME performance and institutional support. This chapter also advances the theoretical framework and the developed hypothesis for empirical testing.

Chapter three discusses the research methodology undertaken in this study, where it describes the research design, data collection methods, population sample, statistical instruments and the measurements for the study questionnaire.

Chapter four reports the results of the statistical tests from the data analysis based on the questionnaire and the findings of the study.

Chapter five concludes the thesis with a discussion of the findings in the context of the available literature, presents of the implications of the findings, and suggestions regarding directions for future research.

1.8 Definition of key terms

This section provides the definitions of key term used throughout the study:

1.8.1 Performance

Performance is defined as financially- and non-financially related rewards that firms and entrepreneurs receive by performing business functions. For the purpose of this study, perceptual measures of performance will be utilized. SME owners are not required to report their business performance formally. Moreover, small business

owners has been known to run businesses not solely for financial achievements, but also seek non-financial goals (Walker & Brown 2004). Their businesses are the outcome of their individual personal goals.

1.8.2 Entrepreneurial capital

In the context of SMEs, entrepreneurial capital is defined as all the assets, capabilities, knowledge, attributes, information and others that are owned by the entrepreneurs that are used for to gain business rewards, and these capital are highly specific to the entrepreneur. This thesis takes into account the specific human capital of the entrepreneur, which is the entrepreneurs' prior knowledge of the market, customers as well as the problems in the market. Specific human capital include knowledge of the industry and knowledge of how to manage a firm (Josef Brüderl, Preisendörfer, & Ziegler 1992). In this thesis, the specific human capital is measured through the previous knowledge of customers, market, suppliers and problems in the market.

Social capital, on the other hand, is potential and actual benefits gained from individual's social relationships, specifically the entrepreneurs' social networks, relational capital and their sources of information. In this study social network and relational capital were used to indicate social capital. Entrepreneurs are surrounded by people and institutions. In the context of Malaysian SMEs, being in the environment of individuals, entrepreneurs are able to get information and can to some extent be influenced by these surrounding individuals and institutions (DeCarolis, Litzky, & Eddleston 2009). Social Networks and Relational Capital were the two measures of social capital employed in this study. The social capital

measures were constructed to assess the extent to which each respondent was structurally or relationally embedded in their personal networks. Relational Capital seeks to understand the amount of information and influence being part of a social network has provided to an individual.

1.8.3 Entrepreneurial competencies

This thesis advocates the meaning of competencies forwarded by (Boyatzis 2009), which were defined as capability or ability, those behaviors that are related to successful performance. An entrepreneurial competency is defined as knowledge, skills and abilities that are required to carry out entrepreneurial roles. It is a specific category of competencies relevant to the exercise of successful entrepreneurship. Entrepreneurial strategic-opportunistic competencies include entrepreneurs' ability to scan the environment for potential opportunities, evaluate them, and select the most appropriate opportunity while generating ways in which they could take advantage of opportunity. This also includes thought process as well as the attitudes with which the entrepreneurs take advantage of opportunities. This is in line with Shane & Venkataraman's (2000) argument that opportunities recognition activities are the core of entrepreneurship. Entrepreneurial learning competencies is the entrepreneurs' abilities to make sense out of their surroundings, their experiences and knowledge while entrepreneurial social competencies include the effectiveness of the way entrepreneurs interact with the people around them.

1.8.4 Government Support Usage

Government Support Usage is defined as the use of the external support or assistance made available by various governmental institutions to help develop SMEs. In the

context of this study, the intensity of usage of this assistance represents the external support mechanism. According to Nazemi and Shirazi (2010), the needs of SMEs are different from that of larger firms. SMEs can play a dominant role in any economy and with proper support from the government; SMEs will flourish. Taking into account that Malaysia is a developing country that SMEs face liability of smallness, external support in the form of government assistance is important.

1.8.5 Entrepreneurs

For the purpose of this study, entrepreneur was defined as an individual who had established and were actively managing a business. Specifically, entrepreneurs are those who meet the following criteria:

1. individuals who have started their own business
2. the business must have less than 150 employees
3. the business must be a stand-alone firm
4. individuals who actively participate in the management of the business

1.9 Conclusion

Small and medium enterprises (SMEs) make up a large portion of business establishments in Malaysia and collectively, SMEs can be important economic contributors and subsequently help the country to progress closer to being high-income nation. However, past research and evidence shown that, SMEs can still improve and potential to contribute is high, despite facing liability of smallness as well as physical constraints. This thesis studied the influence of non-physical capital (specific human capital and social capital), that are endowed in the owner-managers, on entrepreneurs' competencies as well as firm performance. In conclusion, this

study put a focus on individual entrepreneurs as the main determinant of SME performance, specifically, looked at the relationship between capital, institutional support and competencies.