

**KNOWLEDGE MANAGEMENT AND
MALAYSIAN SMALL-MEDIUM ENTERPRISES
(SMEs) EXPORT PERFORMANCE:
MEDIATING ROLE OF INNOVATION**

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MEDIATING ROLE OF INNOVATION**

by

KHAW JIA QI

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LIST OF ABBREVIATIONS

EP	Export Performance
IN	Innovation
IPS	Institut Pengajian Siswazah
KA	Knowledge Acquisition
KD	Knowledge Dissemination
KM	Knowledge Management
KP	Knowledge Application
USM	Universiti Sains Malaysia

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**PENGURUSAN PENGETAHUAN DAN PRESTASI EKSPORT
PERUSAHAAN KECIL-SEDERHANA (PKS) DI MALAYSIA:
PERANAN PENGANTARA INOVASI**

ABSTRAK

Perusahaan kecil dan sederhana memainkan peranan penting dalam menyumbang dan menyokong ekonomi Negara. Memandangkan terdapat ikatan yang kukuh antara perusahaan kecil dan sederhana dan ekonomi negara, perhatian terhadap pembangunan perusahaan sederhana dan kecil yang penuh amat diperlukan. Walau bagaimanapun, perusahaan sederhana dan kecil di Malaysia tidak dibangunkan dengan penuh kekutan. Dunia perdagangan berubah dengan pesat dan organisasi yang tidak maju. Selain itu, sumber dan nilai dalam pengetahuan dapat memimpin organisasi dalam mendapatkan kelebihan daya saing dalam pasaran. Pengetahuan bekerja sebagai modal dan asset dalam memacu kejayaan organisasi. Organisasi digalakkan untuk membangunkan keupayaan mereka dalam process pengurusan pengetahuan di mana mereka akan menjadi lebih kompetitif dan inovatif di pasaran. Inovasi membantu organisasi untuk melabur semula dan membentuk semula diri mereka supaya berdiri tegak dalam pasaran yang kompetitif ini. Inovasi bekerja dalam menghasilkan idea baru dan kreatif dalam melaksanakan produk baru atau peningkatan kualiti produk sedia ada yang dapat membantu dalam meningkatkan prestasi organisasi. Kajian ini dijalankan bertujuan untuk mengisi jurang penyelidikan dengan menentukan hubungan antara pengurusan pengetahuan dan prestasi eksport dalam kalangan perusahaan kecil dan sederhana di Malaysia dan ditengah oleh inovasi. Kajian ini memberi tumpuan terhadap industry perkilangan perusahaan kecil dan sederhana di Malaysia. Terdapat tiga dimensi pengurusan pengetahuan dalam kajian ini, iaitu pemerolehan pengetahuan, penyebaran pengetahuan dan aplikasi pengetahuan. Kajian ini menjangkakan bahawa tiga dimensi pengurusan pengetahuan adalah penting terhadap prestasi eksport. Sehubungan dengan ini, tiga dimensi pengurusan pengetahuan akan membawa kepada hubungan positif terhadap prestasi eksport perusahaan

kecil dan sederhana di Malaysia. Penemuan kajian ini memberikan wawasan ke arah organisasi yang boleh membawa mereka dalam mengenal pasti strategi yang berkesan dan membantu dalam meningkatkan prestasi mereka.

**KNOWLEDGE MANAGEMENT AND MALAYSIAN SMALL-MEDIUM
ENTERPRISES (SMEs) EXPORT PERFORMANCE:
MEDIATING ROLE OF INNOVATION**

ABSTRACT

Small and Medium Enterprises (SMEs) play an important role in contributing and supporting the economy of the nation. Since there is a strong bond between SMEs and nation's economy, it is critical in paying attention towards the development of SMEs. However, SMEs in Malaysia are not developed in the full strength. The commerce world is changing rapidly and organizations that are not developed well will struggle to survive the competitive market. In such, the resources and values that carries by knowledge could lead organization to gain a competitive advantage in the market. Knowledge works as the capital and asset in driving the organization's success. Organizations are encouraged to develop their capabilities in the process of knowledge management in which moving them into more competitive and innovative in the market. Innovation came to mind for organization to reinvest and reshape themselves in order to standstill in the competitive market. Innovation works in producing a new and creative idea in implementing new products or enhancement on the existing products which could help to improve the organizational performance. This study is carried out in aiming to fill the perceived research gap by determining the relationship between knowledge management and export performance among SMEs in Malaysia which is mediated by innovation. This paper focuses on the manufacturing industry of SMEs in Malaysia. There are three dimensions of knowledge management in this study, namely, knowledge acquisition, knowledge dissemination and knowledge application. This study anticipates that the three dimension of knowledge management are critical antecedents on the export performance which could lead to positive relationship with the export performance of SMEs. Besides that, the findings of the study provide an insight towards the organizations which could lead

them in identifying effective strategies as well as helps in improving their export performance.

CHAPTER 1

INTRODUCTION

1.1 Introduction

The overview of the research will be explained under this chapter. It will start with a brief description of the research background and then followed by the research problem, research objectives, research questions, research hypotheses, significance of the study, definition of terms, theses structure, scope of study and the assumption made for this research. The primary part the research will discuss about the background of the study which explain the previous research done in this area and development of the topic. It is then followed by the research problem, objectives and questions are presented to provide better understanding on the research. The significance of this study explains on the contributions and the importance of this research to field related to research and management. The definitions of terms, theses structure, scope of study and the assumption made will be highlighted to describe and explain the research layout.

1.2 Background of Study

Malaysian government set a high expectation on economy growth. Ahmed (2012) mentioned that SMEs play an important role in contributing to the economic growth. The internal and external environment trends changed, and currency fluctuated from the year 2018 to the year of 2019. Besides that, the implementation of Sales Services Tax (SST), caused more ambiguous circumstances. SST not only able to strengthen the fiscal position but also ensuring the continued support the growth of domestic market as well as protect the society's well-being. SMEs face challenges in

order sustain in the competitive market and adapt to the new policy and setting. The growth pattern of a company can be understood well through observing the organization's reaction and decision in dealing with these changes.

Associate with the new economy is one of the most important evolutions in the business field over the past decades (Hassan, Najma & Raziq, Abdul, 2019). Handzic (2006) mentioned that the business environment can be concluded into six main trends such as predisposition and preference; increasing competition and globalization; new profile of workers; changing organizational structures; communication technology and the rise of knowledge management. Dynamic nature and the velocity of the markets in gaining their knowledge which works as the mean in creating value and competitive edge causes the great competition in the market. Hassan, Najma & Raziq, Abdul (2019) mentioned that the basic concept of knowledge management depicts that the organizations that manage organizational knowledge gain the competitive advantage in the competitive market. This is supported by Darroch (2005) and Du Plessis (2007) who mentioned that knowledge management is seen as the vital factor in order to sustain in the competitive edge as well as to improve the innovation and efficiency. In general, knowledge management plays a vital role toward all type of organization in running their usual business operation. Hassan, Najma & Raziq, Abdul (2019) mentioned that there is a correlation between knowledge management and business growth. There are some reasons that organization undertake KM as an initiative such as faster innovation, knowledge sharing, improved decision making, managing knowledge resources, reducing duplication of work as well as improve the business process (Imran, Aziz, Hameed, 2019). Knowledge management is viewed as the vital as factor that carries value and cannot be ignored as compared to other tangible asset

such as land and capital. This brings knowledge management as the most important resources in achieving organizational goals.

Based on the survey from SME Corp 2018, only 13.3% of the respondents involve in exporting into international market with an average 20% of their total products or services were sold abroad. Regarding on this, it is important to carry out more measure on determining the export performance of SMEs in Malaysia. ASEAN and China were concentrated as a point for export activity with a total of 20.5% of the respondents were the first-time exporters. In order to strengthen the export activity and export performance of SMEs, several initiatives such as diversifying into new export market, networking, launching new products and services as well as customize the products and services that are different from competitors. Besides that, the report stated that 17.7% of the SMEs are planning to penetrate the international market.

However, SME Corp 2018 also pointed the constraints for SMEs to export such as insufficient information or knowledge on the targeted market, lack of knowledge of competitors, expecting to incur higher operating cost, lack of knowledge to export and global demand as well as inadequate source of financing. These obstacles depict that knowledge plays an important role towards the organizational success. An organization must own good knowledge management in managing knowledge and applied the knowledge back to the business in order to enhance the export performance of the organization. Some SMEs faced obstacles in sharing the gained knowledge within the organization. Without knowledge management, SMEs faced a great challenge in exporting as well as enhance the export performance. At the same time, good knowledge management could lead to innovation which could help SMEs to gain competitive advantage in the market. In general, the measures on knowledge

management and innovation towards the success of SMEs in the market must be carried out.

On the other hand, Amelingmeyer & Amelingmeyer (2005) mentioned that SMEs need to handle the available resources with care as the erroneous decisions could be more complicated than in larger firm. This is because SMEs have a flat and flexible organizational structure as well as SMEs tend to be slightly informal which could lead to stronger entrepreneurship and innovation (Daft, 2007). Besides that, owner tends to be the decision maker and the control is based on the owner's personal supervision. This is supported by Culkin and Smith (2000) who mentioned that it is common that the business planning process is only involving limited to only one person which is the business owner. Most of the SMEs rely on certain people involving in the knowledge management for day to day operation. However, SMEs require more attention. This frequently leads to the situation in which insufficient time available in solving issues (Bridges, O'Neil and Cromie, 2003) as well as most of the knowledge are being kept in the mind of person in charge only rather than being share among the other employees (Wong and Aspinwall, 2004).

In general, SMEs are facing unique knowledge management challenge which is different from large organization. Most of the SMEs do not take knowledge management as the priority. Some of them even ignore the important of knowledge management and innovation as they emphasise that only large firm able to involve in knowledge management and innovation. In addition, some managers of SMEs try to prevent the outflow of knowledge from the company and thus create the blockage for knowledge (Bozbura, 2007). Durst and Wilhelm (2011) mentioned that knowledge management could be time consuming and a lot of trust is required. This could also become a challenge for SMEs to involve in knowledge management and innovation.

The study is focusing on the SMEs' export performance quality. It studies on how knowledge management and innovation affect the export performance in SMEs. According to Porter (1980), export performance can be achieved through the positional advantages within the market in creating and exploiting the market. In short, export performance plays a significant role to the business. However, it is not easy to achieve especially in this competitive and dynamic market. Therefore, it is vital to determine how knowledge management is carried out among SMEs and how the knowledge management and innovation affect the export performance in SMEs. This research provides ideas that generate effective framework which help SMEs to grow in the export market in a longer term.

1.2.1 Knowledge Management and Innovation

The research which focuses on the knowledge management is carried out in order to test the influence of knowledge management towards export performance in SMEs. Suraj and Ajiferuke (2013), Tseng (2014), Yang, Chen and Wang (2012) mentioned that KM is widely used in the market as it has large extent of export performance. Nazari and Emami (2012) defined KM as the practice which assist the organization to gain information and utilize the information well. It is important to carry out the knowledge management especially for the SMEs in order to survive in the competitive market. It can be seen through the statement made by Sarkindaji, Hashim and Abdullateef (2014) who mentioned that KM is the most important asset for business organization because knowledge is essential for the business to be competitive advantage in the market.

There are several researches being carried out by using different dimensions of knowledge management in order to determine the effect of knowledge management towards the export performance of the organization. This is determined by Yusof and

Bakar (2012) that there is no any mutual agreement on the dimensions of the KM. It can be seen through when Hsiao, Chen and Chang (2010) used two dimension of KM which include acquisition and diffusion of knowledge. In addition, Mushref and Ahmad (2011) identified creation and acquisition, sharing and dissemination, and utilization and application as the dimension of KM in their research,

Apart from that, Mahmoudsalehi (2012) used only three dimensions of KM in their study which includes creation, sharing and utilization. Radzi, Jenatabadi, Hui, Kasim and Radu (2013) also study three dimensions of the knowledge management which includes acquisition, conversation and application towards the business performance of the organization. Besides that, there are three dimensions of KM namely acquisition, sharing and utilization being carried out by Chobdar, Naseri, Bazmi and Masuminejad (2016), Kor and Maden (2013), Therious and Chatzoglous (2009) and Zheng (2005) in order to test the effect of KM towards the business performance. Table 1 below shows the summary of the prior studies on the dimensions of KM.

Table 1.1

Summary of Prior Studies Dimension of KM

Author and Year	Knowledge Management Dimensions
Therious and Chatzoglou, (2009); Radzi, Jenatabadi, Hui, Kasim and Radu, (2013)	Accumulation, conversation and application
Mushref and Ahmad, (2011); Mahmoudsalehi, (2012) ; Ahmad, Lodhi, Zaman and Naseem (2015) ; Kor and Maden, (2013) ; Chobdar, Naseri, Bazmi and Masuminejad, (2016)	Creation and acquisition, sharing and dissemination and utilization and application
Akhavan and Sanjaghi, (2014)	Creation and acquisition, organization and saving, dissemination and sharing, and knowledge application

Source: Author

Dasgupta and Gupta (2009) stated that innovation leads to the successful generation of new ideas in which helps to enhance the business performance. In addition, Baregheh, Rowley and Sambrook (2009) also stated that innovation plays an important role in determining organizations' growth and survival. Therefore, Chong, Chong and Gan (2011) carried out a research in determining that the firm without innovation will lead to poor organization performance. Several studies have been carried out in order to determine the impact of knowledge management towards innovation. Innovation is becoming the integral part of the organization (Hassan, Najma & Raziq, Abdul, 2019). Du Plessis (2007) mentioned that the velocity of innovation has altered the nature of global economic growth which has been made it possible by increasing technology growth, shorten the product lifecycle, and higher rate of product development.

1.2.2 Small and Medium Enterprises (SMEs)

Nowadays, SMEs play an important role in determining the economy development in a country, especially Malaysia. According to SMEs Corp annual report, SMEs in Malaysia recorded a real Gross Domestic Product (GDP) growth of 5.2% during the year of 2016. This indicates an increase in the SMEs contribution to 36.6% of Malaysia's GDP.

Besides that, it is also forecasted that the value-added product from SMEs will be worth 50 percent of total production in the manufacturing sector on the year of 2020. Therefore, it is said that SMEs play an important role in determining the success of the economy towards the country. Therefore, it is said to be aligned with Peters and Waterman (1982), Amini (2004) and Radam, Aalias, Abu, Bmimi Liana and Abdullah and Camin Mahir (2008)' statement in which SMEs can be concluded as the backbone of national economy.

Table 1.2

Contribution of SMEs in 2016

Contribution of SMEs	Percentage in 2016	Percentage in 2017	Increment
GDP	36.6%	37.1%	0.5%
Exports	17.3%	18.6%	1.3%
Employment	65.3%	66.0%	0.7%

Source: Department of Statistic Malaysia (DOSM)

The annual report of Malaysia SME 2017/18 mentioned that government implemented several policies and funding allocation in order to assist SMEs in Malaysia. The government allocated the budget in order to improve SME's position in the export market. For example, government has re-established the Ministry of Entrepreneur Development to enhance the growth of SMEs. SMEs able to stay more competitive with the acceleration of the development of entrepreneurship among SMEs in Malaysia (Economic Planning Unit, 2015). Besides that, services sector has the highest contributor and it is then followed by manufacturing sector which was the second greatest contributor at 16.5% to the SMEs employment followed by agriculture at 11.0%, construction at 10.5 % and mining and quarrying at 0.3% (SME Corp Malaysia 2017/18).

Table 1.3

Total Establishment of SMEs in Malaysia

Sector	Total SMEs Establishment	Share of SMEs (%)
Services	809126	89.2
Manufacturing	47698	5.3

Construction	39158	4.3
Agriculture	10218	1.1
Mining and Quarrying	865	0.1
Total	907065	100.1

Source: Economic Census 2016: Profile of Small and Medium Enterprises, Department of Statistics Malaysia

Table 1.3 shows the total establishment of SMEs in Malaysia. The top establishment among SMEs is the service sector which has the highest ranking at 89.2%. It is then followed by manufacturing and construction sector. On another hand, SMEs in Malaysia show an increase of employment from 65.3 % in the year of 2016 to 66.0% in the year of 2017. According to SME Corp 2017/18, the growth of SMEs employment is recorded at a higher pace while the large firms remained flat. This is partly due to the movement of large firm to SMEs.

Table 1.4

Percentage Share of SME Employment to Total Employment (%)

SMEs in Malaysia	Percentage Share of SME Employment to Total Employment (%)						
	2011	2012	2013	2014	2015	2016	2017
SMEs	57.3	57.2	57.5	63.8	64.6	65.3	66.0

Source: Department of Statistics Malaysia

According to Ong, Jeen, Ismail and Yeap (2010), Malaysia economy is shifting from agriculturally based into knowledge-based in order to achieve the vision 2020 as well as to become a developed country. As mentioned previously, Saleh et al., (2006) stated that SMEs are the backbone for the industrial development in Malaysia. It is also supported by Radam et al., (2008).

SMEs play an important role in contributing the Malaysia Economy. This can be supported by Thurasamy, Ramayah, Mohamad, Omar and Marimuthu (2009) which stated SMEs in Malaysia contributed 47.3 percent of GDP in the economy. Besides that, SMEs in Malaysia also achieved 99.2 percent of business establishment. In addition, the existence of SMEs in Malaysia lowers the unemployment in Malaysia (Thurasamy et al., 2009).

Kassim and Sulaiman (2011) mentioned that manufacturing sector is vital among the SMEs in Malaysia. Manufacturing sector among SMEs in Malaysia created the employment up to 31.2%. According to Hoq, Ha and Said (2011), SMEs in Malaysia contribute to the economic well such as contribution to GDP by sector, employment, and export by sector as well as productivity.

SMEs International Malaysia (2013) stated that most of the large corporation success in their business due to SMEs as SMEs are the fundamental of the economies. Besides that, it also mentioned that SMEs play an important role in contributing to more than 65% of employment as well as 50% of gross domestic products. SMEs also have the potential in growing the future development in Malaysia. SMEs in Malaysia pay concentration in textile and apparel, food and beverages, metals and wood products sectors. Manufacturing SMEs companies are located at the central parts of Malaysia.

Rose, Kumanr and Yen (2006) pointed out that SMEs play an important role in solving unemployment issues as well as help in the economy development in Malaysia. Omar, Arokiasamy and Ismail (2009) also supported that SMEs is important in developing Malaysia's economy. In addition, Saleh and Ndubisi (2006) also stated that SMEs are the backbone for the industrial development in Malaysia. In order to accomplish the vision 2020, SMEs play an important in helping the development of

Malaysia economy. According to Omar et al., (2009), Malaysia will achieve to be an industrialize nation which focusing on the strengths on overcoming the weaknesses through SMEs.

According to the Department of Statistics Malaysia, Malaysia's SMEs recorded a strong growth of GDP at 7.2 percent while Malaysia's GDP is only recorded at 5.9 percent in 2017. In 2016, Malaysia's SME recorded GDP of 5.9 percent. It is clearly shown that there is a slight increase of GDP among SMEs in Malaysia from 2016 to 2017. In nominal term, SMEs' GDP shows an increase in 2017 which is recorded at RM512.8 billion while there is recorded at RM 463.5 billion in 2016.

The SMEs export performance experiences an increment from year 2015 to year 2017. Report shows that there is an increase of SMEs export from 2015 to 2016 which is increases from 17.7 percent to 18.6 percent. Besides that, there is also an increase of 7.9% for the SMEs exports in Malaysia from 2016 to 2017. In more specific, there is an expansion of 6.7 percent in Services, 8 percent in Manufacturing and 48.1 percent in Agriculture in the year 2017. The total SMEs exports is recorded as 17.3 percent in the year 2017 in which is 8.7 percent from Services sector, 8.2 percent from Manufacturing sector and 0.4 percent from Agriculture sector. This shows that the export business performance in SMEs in Malaysia has been stagnant for a long time as the data is recorded below 20 percent for the export performance.

However, SMEs faced piles of challenges in dealing their business globally. It comes the same to SMEs in Malaysia. Several researchers such as SMIDEC (2017), Ting (2004) as well as UPS survey (2005) identified the challenges faced by SMEs in Malaysia such as lack of financing, low productivity, lack of managerial ability, poor management and poor technology are the main challenges faced by the SMEs in Malaysia. Emine (2012) supported this statement by identified that SMEs face many

constraints, for example, shortage of entrepreneurial competencies, skill in management, lack use of information technology, poor product quality and technological backwardness.

There are several researches which identified by Bloch and Bhattacharya (2016); Lo, Wang, Wah and Ramayah (2016) that small businesses like SMEs will have higher rate in failure as compared to larger firm even though they also play in the role of driving the economy in the country. SME Corp (2016) showed an evidence on this statement as it was showed that several SMEs in Malaysia experienced the worse business performance in 2016. As mentioned before that they are many reasons that contribute to the failure of the business performance.

On another hand, internationalization is no longer the privilege for strong capital organization as the freshly setup organization which owns and utilize science and technology can also exploit the global market niches. Manufacturing SMEs in Malaysia are still not mature enough with innovation, capabilities and competitiveness. Deeper research is needed to carry out in order to enhance SMEs Malaysia to gain competitive advantage in the market.

Traditionally, internationalization is only allowed for large firms. With the existence of internet access and globalization, the networking and bonding of small firms toward global market is strengthen. However, Chelliah, Mohamed and Yusliza (2010) mentioned that that greatest challenge that SMEs face during the internationalization is the cost.

Apart from that, the main concern of SMEs is the low level of performance. In order to cope with this issue, SMEs need to be tough enough to survive in this competitive market as the competitors has multiplied in their magnitude. It is also important for SMEs to determine their plan in the form of knowledge management to

react to this competitive market. Thus, a study on the effectiveness of knowledge management and innovation in determining the export performance of SMEs is carried out.

1.2.3 Export Performance in SMEs Malaysia

SME Corp Malaysia (2018) mentioned that export performance of SMEs Malaysia is highlighted in the year 2017 and recorded highest growth rate since 2011. The graph below depicts the export growth by size in Malaysia since 2011 to 2017.

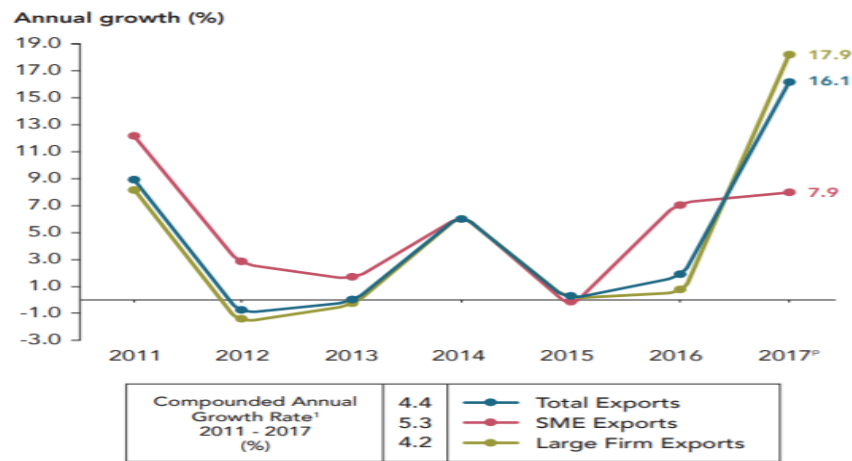


Figure 1.1: Export Growth By size
Source: Department of Statistics, Malaysia, 2018

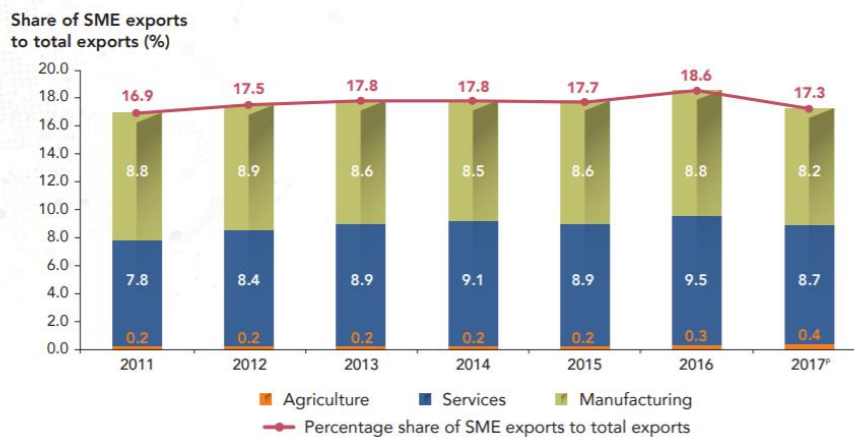


Figure 1.2: Share of SME export to Total Exports
Source: Department of Statistics, Malaysia, 2018

The high degree of openness to trade and investment flows affected the Malaysian economy by both weakened global GDP and trade growth in 2018. The economy faced several challenges such as escalation of global trade tensions, continued policy uncertainty. However, SMEs were less affected compared to large firms due to low exposure to the export market (SME Corp 2018). According to SME Corp 2018, SMEs export performance is increasing since the year of 2011 and recorded a higher growth of 7.9% in 2017 while agriculture, manufacturing and service work as the driver of the export performance of SMEs in Malaysia.

In addition, SME Corp 2018 also mentioned that export performance of SMEs in the agriculture sector focus on the export of banana, pineapple, palm oil and rubber while manufacturing sector of SMEs Malaysia mainly supported by the export of mineral fuels, vegetables oil and fats products. Besides that, Singapore is recorded as the major export destination for SMEs Malaysia with the score of 18.3% and it is followed by China and United State. Apart from that, export of travel, transport and other services work as the moderator in the SME service sector. Service sector of SMEs experienced a slower pace in the services.

The contribution of SME export to total export is shown as above. From the chart, it is clearly shown that the SME export to the total export recorded lowered at 17.3% in the year 2017 compared to the year 2016 which is recorded at 18.6%. SME Corp Malaysia (2018) stated that the decline of the percentage in the year 2017 is mainly due to the robust export of the large firm which is driven by higher manufactured exports. Therefore, large firm could benefit in the global economic growth and export activity.

Throughout the data as shown above, it is clearly shown that there is an increasing number of export growth among SMEs in Malaysia. This show that the organizations are moving to internationalization. According to SME Corp (2017), the number of high-tech products increased with the growing of SMEs in Malaysia. This is supported by Nik Abdullah and Mohd Zain (2011) who mentioned that SMEs in Malaysia are getting more involvement in the global market.

1.3 Problem Statement

SME Corp Malaysia found out that there are four main characteristics of SMEs in Malaysia in their business which are low productivity, low business formation, small number of high growth firm in contributing to the economy and the existence of material share of informal sector in the economy. These characteristics could lead to the low performance of SMEs in Malaysia. According to SME Corp Malaysia (2018), SMEs in Malaysia has the low productivity in which there the productivity per worker averaged RM 47000. SME Corp Malaysia mentioned that the productivity in SMEs Malaysia is only one-third of the productivity in developed countries such as Singapore and United States which own seven- or four-time higher productivity. Besides that, SMEs in Malaysia focused in forming the business in sole proprietorship and partnership while pay less focus on owning business type of limited liability companies which could help to reflect the entrepreneurship in the economy.

Some SMEs are still faced by lack of application knowledge and skills, limited access to relevant information on technology and dependency on poor and obsolete technology. Moreover, SME's capacity to innovate is limited to knowledge and available facilities are inadequate and inefficient. According to SME Corp Malaysia CEO, Datuk Dr. Hafsah, SMEs often lack time, manpower and funding in order to

conduct research and development. For them, research and development are viewed as a cost rather than an investment. SME Corp Malaysia aware on the importance of innovation towards SMEs and development several campaign in order to foster innovative organization that intensify home-grown research and development and innovation.

The statistics showed that there is an increase of export performance among SMEs in Malaysia from 2015 to 2016. However, the export performance of SMEs is still recorded below 20 percent for the year 2016 as shown in table 2 previously. In conjunction with this, an in-depth research on the dimensions of knowledge management towards the export performance among SMEs is required.

Even though there are numerous studies that have been done on the business performance among SMEs due to the knowledge management, the field still lack exploration on the influence of knowledge management toward export performance. It is also still not fully understood regarding the impact of KM within the organizations.

Although it is found that there are some researchers focus on the knowledge management dimensions towards the export performance among SMEs, the result is mixed and not uniform. Besides that, there are different researchers focused on different dimension of KM in conducting the research. The research regarding this topic is still carried out for the recent years. In recent year, Loke and Abu (2017) also continue research regarding KM and business performance among SMEs. Loke and Abu (2017) focused on different dimensions of KM, namely, knowledge acquisition, knowledge sharing and knowledge utilization. The frequent research on these three years regarding KM and business performance shows that KM is still not conclusive enough. Therefore, a study regarding the KM and business performance must be

carried out. In this study, three dimensions of KM, namely, knowledge acquisition, knowledge sharing, and knowledge application will be carried out in order to test the relationship between the dimensions of KM and innovation and export performance among SMEs.

Apart from it, the understanding on the effects of KM towards the export performance is still undergoing development in which further research is needed in order to develop the understanding of KM towards export performance. In short, there is a need in order to determine the relationship between KM, innovation and export performance among the SMEs.

1.4 Research Objectives

The main purpose of this study is to introduce the important of knowledge management among SMEs in Malaysia.

1.4.1 General Objectives

This research aimed at examining the dimensions of KM that may impact upon the export performance among SMEs. It aims to examine whether there is a relationship between the dimensions of KM and export performance among SMEs. The research intends to address the insufficient level of empirical findings regarding the impact of the knowledge management towards the export performance among SMEs in Malaysia. Since the finding on the relationship are mixed, this research aims to provide additional results to existing researchers to ensure the relationship more convincing.

1.4.2 Specific Objectives

1. To understand the relationship between knowledge acquisition and innovation among SMEs in Malaysia.

2. To understand the relationship between knowledge dissemination and innovation among SMEs in Malaysia.
3. To understand the relationship between knowledge application and innovation among SMEs in Malaysia.
4. To understand the relationship between innovation and export performance among SMEs in Malaysia.
5. To understand the mediating effect of innovation on knowledge acquisition and export performance among SMEs in Malaysia.
6. To understand the mediating effect of innovation on knowledge dissemination and export performance among SMEs in Malaysia.
7. To understand the mediating effect of innovation on knowledge application and export performance among SMEs in Malaysia.

1.5 Research Question

The objectives of this research is to examine the relationship between the dimensions of KM and the export performance among SMEs in Malaysia. While the study is conducted, several questions are being asked as below:

1. Does knowledge acquisition have a positive relationship with innovation among SMEs in Malaysia?
2. Does knowledge dissemination have a positive relationship with innovation among SMEs in Malaysia?
3. Does knowledge application have a positive relationship with innovation among SMEs in Malaysia?
4. Does innovation have a positive relationship with export performance among SMEs in Malaysia?

5. Does innovation mediate the relationship between knowledge acquisition and export performance among SMEs in Malaysia?
6. Does innovation mediate the relationship between knowledge dissemination and export performance among SMEs in Malaysia?
7. Does innovation mediate the relationship between knowledge application and export performance among SMEs in Malaysia?

1.6 Significance of study

This research is carried out in order to identify the dimensions of KM that influence to the export performance among SMEs in Malaysia. Therefore, the result obtain from the research could benefit and used as a guideline for SMEs which keen in paying attention on KM in order to enhance their organization's export performance. It also can provide a basis for understanding the influence of innovation on the link between KM and export performance.

Besides that, this study contributes to the academic standpoint that improve the existing theories of resource-based theory and internationalization process model. The significance of the study shall support above mentioned theories as well as it will add more acquaintance towards export performance and innovation as an overall and in manufacturing industry to be specific. Resource based view theory could help companies to gain the competitive advantage in the market by having the valuable resources and capabilities in the supply. It also helps to define on how unique the organization by owning different strengths in order to stay competitive in the market. Besides that, knowledge-based theory plays an important role in depicting the knowledge-based competition in which the organizations able to differentiate themselves. Thus, companies that achieved the competitive advantage through knowledge management combine the knowledge asset so that the capability of

knowledge management can be created effectively. U-model depicts the stages that involved in order to increase the firm's commitment to the international activities. In addition, innovation model defines on the importance of technology towards the environment and internationalization process. Organizations can grow and expand their new journey through innovation model.

There are increasing numbers of international firms from Asian countries that started their journey in order to participate in the global market as the economic sector especially industrial sector has shown rapid growth. Asian countries such as China, Vietnam, Singapore, Malaysia and others emerged remarkable creations and innovation. Tan (2011) mentioned that organizations that applied the KM dimensions will have a value-added advantage as well as able to be placed an edge above the other organizations. Besides that, Darroch (2005) also suggested that the organizations in which carry out KM dimensions will able to more innovative in which lead to better firm performance as well as utilize the resources efficiently. By recognizing the KM capabilities, SMEs in Malaysia will have a deeper insight and higher awareness towards the importance and concept of KM. Indeed, this research will facilitate the efficient and effective use of knowledge resource in resulting better performance.

The study will pinpoint the key for Malaysian Manufacturing SMEs to succeed in the global market as well as act as a benchmark for all manufacturing SMEs in Malaysia to enhance their competence and quality. Besides that, innovation works as the vital factor which could bring effect towards the technological firm to engage into the global market. However, whether the same method can be applied to the manufacturing SMEs in Malaysia is still needs to undergo study. The model and the key factors which allow the manufacturing SMEs to enhance their export performance and succeed will be formed at the end of the study. This will provide a good insight to

manufacturing SMEs to learn the best way to venture themselves in the international market.

Traditional manufacturing is transformed from the existence of innovation and technology. Manufacturing SMEs Malaysia are expected to face piles of challenges in order to gain competitive advantage in the market. For such, manufacturing SMEs should have a certain level of managerial capabilities which allow them to survive or optimize their production level.

In addition, this study can provide a pool of knowledge on the importance of KM in affecting the export performance among SMEs. If this knowledge is well managed, the organization will result in above performance. Others than that, this research also can be used by other academician or scholars as a reference for further research regarding KM and export performance among SMEs. Furthermore, this study can also be used as the springing board for further research in KM and export performance. From this study, it is hoped that it can give the useful information to all SMEs and hopefully can be business consulting to them.

It is projected that the results of the research will be used as a source of guidelines for SMEs to enhance and advance their export performance and at the same time enhance the economic development in the country which could work as the key of competitive advantage. Thus, SMEs performance will largely contribute to the economic growth of the country through this study. It is also forecasted that SMEs could contribute about 20% to 27% of economic growth by improving their export performance (Barney, 2011). Besides that, this study would also assist SMEs to obtain knowledge and knowledge management as the organization grows internationally in

order to win competitive advantage in the exporting market. SMEs can also competent to upgrade the quality of their business as well as proficiency and productivity.

1.7 The scope of study

In this research, the scope of research focused on the relationship between KM and export performance among SMEs while innovation works as the mediator. There are three dimensions of KM which will be tested throughout the research namely, knowledge acquisition, knowledge conversion and knowledge application.

To develop a better understanding towards KM, past research is used as reference. Besides that, the source of information is covered by books, journals and articles as well. Sources that obtained in this study is not only covering the local but also obtained all around the world.

This research focus on the SMEs in Malaysia as SMEs are increasable important in the Malaysian Economy. This study is focusing on manufacturing SMEs. The variables studies include KM and export performance as the explanatory and explained variables respectively. Innovation will work as the mediating variables in this research.

Besides that, measurement and variables of the independent variable and dependent variable will also be discussed. The research data collection method by using PLS-SEM (Partial Least Squares SEM) will also be highlighted. The theoretical framework of this study depicts a guideline which dealt with the relationship of knowledge management and export performance among SMEs in Malaysia and mediated by the innovation.

1.8 Definitions of terms

i. Export Performance

Export performance is the outcome of the activities that carried out by the firm in order to measure on how well the firm in is achieving the objectives set (Guner, Lee and Lucius, 2010).

ii. Knowledge Management

Knowledge management is defined as the process in identifying and applying the firm knowledge in order to gain new opportunities and improve the firm performance (Yang, 2011).

iii. Knowledge Acquisition

Knowledge acquisition is known as the process of gaining knowledge either within the firm or outside the firm as well Cho and Korte (2014).

iv. Knowledge Dissemination

Knowledge dissemination as the knowledge is transmitted or shared between the individuals (Lin, 2013). Besides dissemination, other terms like sharing, transmission or sharing are used in order to mention the flow of knowledge within the organization. (Saarenketo and Puumalainen, 2013)

v. Knowledge Application

Knowledge application is a tool in transforming knowledge into the innovation in improving the business performance (Gold, Madhoushi, Sadati, Delavari, Mehdivand and Mihandost , 2011 ; Matin, Nakchian and Kashani ,2013).

vi. Innovation

Innovation is a term that defined as the development or improvement of an existing products or services to be better or new (Cassiman & Martinez-Roz,

2007; Jack, Anderson & Conolly, 2014; Nor Ghani, Adul Bashar Jamaliah & Shed, 2016).

vii. *Small and Medium Enterprises (SME)*

For the manufacturing sectors, SMEs are defined as the firm with sales turnover not exceeding RM50 million or employment not exceeding 200 workers (SMEs Corp Malaysia, 2018).

1.9 Thesis Structure

This thesis is organized into five chapters where elements written in each chapter are different from others.

In Chapter 1, which is an introductory chapter, the overview of the whole research is discussed. It comprised of general background of SMEs. Likewise, the research problem, important, objectives, scope of study and assumptions are included in chapter as well. The definitions from numerous researches about business performances and KM are written in this chapter.

Chapter 2 is about the literature study related to the topic of this research. Concept of KM is written in this chapter. The past researches that found positive or negative relationship with this topic are inserted in this chapter.

Chapter 3 mentions the methodology and theoretical framework of the variable of the whole research is written. Besides describing the methods and techniques applied to carry out the whole research, the way data is gathered, evaluated and analysed are also included in this chapter.

The chapter 4 presents all the results of the data collected and followed by detailed analysis on the data obtained. Then, the discussion of the result based on the