

# Entrepreneurial Competency and SMEs Performance in Malaysia: Dynamic Capabilities as Mediator

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## Abstract

*The purpose of this paper is to examine the role of dynamic capabilities as a mediator in the relationship between entrepreneurial competency and SMEs performance in Malaysia. Using a quantitative cross-sectional survey approach, data were gathered through mail survey questionnaire distributed to SMEs owner-managers throughout Malaysia, including Sabah and Sarawak. The constructs used were adapted from prior research and already tested for reliability. Data obtained was analysed using Statistical Package for Social Sciences (SPSS) version 21 for Windows. Statistical results confirmed the significant relationships between opportunity competency, organizing competency and strategic competency, and SMEs performance. Meanwhile, dynamic capabilities was found to mediate the relationships between relationship competency, conceptual competency, commitment competency and SMEs performance. Finally, implications and some suggestions for future research are also discussed.*

**Keywords:** Entrepreneurial Competency, Performance, Dynamic Capabilities, SMEs Owner-Managers, Mediating Effect.

## 1.0 Introduction

Small and Medium Enterprises (SMEs) play a significant role in the global economy (Audretsch, Van der Horst, Kwaak, & Thurik, 2009; Karpak & Topcu, 2010; Munoz, Welsh, Chan, & Raven, 2015). By forming the majority of businesses operating worldwide (UNIDO, 2001; Reijonen & Komppula, 2007), SMEs also generating up to 80 per cent of the economic growth (Morrison, Breen, & Ali, 2003; Naudé, 2010; Nakagawa, 2012).

In a developing country like Malaysia, SMEs are seen as a mechanism to improve income distribution, economic growth and reshape the economic structure that is highly dependent on the activities of the big business (Abdullah, 1999; Abdullah & Manan, 2011). Thus, until today, research related to the growth and performance of the business is the main topic in the journal of entrepreneurship and strategy (Short, McKelvie, Ketchen, & Chandler, 2009; McKelvie & Wiklund, 2010). Based on data from the Department of Statistics, Malaysia (MPPK, 2011), the contribution of SMEs to GDP increased from 29.4 per cent in 2005 to 32.7 per cent in 2012. However, despite contributing to the national economy, the level is relatively low (Tehseen, Sajilan, Ramayah, & Gadar, 2015), thus, due to the low productivity and poor performance, SMEs in Malaysia really lose a competitive edge in the world (Tehseen et al., 2015). Therefore, the contributions of SMEs need to be upgraded to a higher level so that it will become significantly more important to the Malaysian economic growth.

Base on the previous studies, there were many factors that contributed to the success of the SMEs. However, most of the literatures on the organizing competency were written from the perspectives of large companies and the studies focusing on SMEs competence are limited (Taipale-Erävala, Heilmann, & Lampela, 2014). In other cases, dynamic capabilities are also considered as a transformer that converts the source into improve performance (Lin & Wu, 2014).

No doubt, these factors may lead to SMEs performance and this is the reason why entrepreneurial competency (EC) and dynamic capabilities (DC) is crucial to the success of the SMEs. Thus, this study attempts to examine the factors such as entrepreneurial competency (EC) and dynamic capabilities (DC) that relate to the Malaysian SMEs performance which could further added to the body of knowledge, specifically to both academic and managerial purpose.

## 2.0 Literature Review and Hypothesis Development

### 2.1 Entrepreneurial Competency (EC)

Competencies as proposed by Boyatzis (1982) are comprised of one's motives, personality traits, self-image, attitudes, will, social roles, skills and knowledge. It is also suggested that entrepreneurial competencies (EC), which are defined as "underlying characteristics such as generic and specific knowledge, motives, traits, self-images, social roles, and skills which result in venture birth, survival, and/or growth" (Bird, 1995), may be the key to improving a firm's performance.

The six dimensions of EC that will be used in this study are opportunity competency,

relationship competency, conceptual competency, organizing competency, strategic competency and commitment competency, as created by Man and Lau (2000).

Opportunity competencies are related to identify and developing market opportunities through different ways (Man, Lau, & Chan, 2002), while relationship competencies speak about to interactions, e.g., cooperation with environment, using relations, persuasive ability, communication and interpersonal skill (Man et al., 2002).

Meanwhile, divers' conceptual talents that are reflected in the entrepreneurial behaviours that are decision skills and consideration of complex information is described as conceptual competencies by Man et al. (2002). Man et al. (2002) then defined that competencies associated to the organization of diverse internal and external human, physical, financial and technological resources as organizing competencies, while setting, evaluating, and executing the strategies of the firm as strategic competencies. Finally, commitment competency is the forces that entrepreneur to progress in advance with the business (Man et al., 2002).

In summary, EC can be defined as a set of knowledge, skills and abilities that allow entrepreneurs to successfully perform the role of their work (Chandler & Hanks, 1994; Man & Lau, 2000; Baum, Locke, & Smith, 2001; Man et al., 2002) and thus, it is important to expedite the empirical study of them.

### 2.2 SMEs Performance

Business performance is one of key problems and crucial factor in the field of management studies and of interest to practitioners and academicians. Therefore, understanding the background, process and

determinant factors to business performance has long been a major goal of the research organization. In other cases, business performance of the organization and it is a phenomenon are also argued as being influenced by external factors and internal organization.

Despite various definitions of business performance in the literature, business performance of SMEs in this study will be measured subjectively, as specified by, in terms of sales and profitability of cash flow, gross profit margin, net profit from operations, sales growth, return on sales, return on investment, the ratio of profit on sales, return on shareholders' equity and the ability to finance business of profits.

### **2.3 The Relationship between Entrepreneurial Competency (EC) and SMEs Performance**

Current studies on EC revealed that lack of this factor actually led to the failure of SMEs businesses (Kiggundu, 2002; Ahmad, 2007; Ahmad, Halim, & Zainal, 2010). This is further supported by Wasuntiwongse (1999) who stated that many studies have found that business failure is largely due to the skills, knowledge and competencies of entrepreneurs. Furthermore, Griffin (2012) and Ropega (2011) pointed out that most business failures are caused by the owner-managers of SMEs who are incompetent, lack experience in managing their business and taking prompt remedial action in a crisis.

To date, empirical studies on EC have been done by numerous researchers and results revealed the important role EC towards performance/business success of SMEs in developed countries and developing countries (Man et al., 2002; Colombo & Grilli, 2005; Ahmad, 2007; Man, Lau, & Snape, 2008; Mitchelmore &

Rowley, 2010; Rasmussen, Mosey, & Wright, 2011; Solesvik, 2012). In fact, EC is confirmed to not only associate with the firm performance and competitiveness (Man et al., 2002), but also the growth and success of a business (Lerner & Almor, 2002; Colombo & Grilli, 2005; Ismael & Muhamed, 2013). Therefore, this variable cannot be ignored in the context of SMEs owner-managers in improving their business performance. Hence, based on the literature, the following hypothesis is proposed:

*H1: There is a significant relationship between opportunity competency and SMEs performance.*

*H2: There is a significant relationship between relationship competency and SMEs performance.*

*H3: There is a significant relationship between conceptual competency and SMEs performance.*

*H4: There is a significant relationship between organizing competency and SMEs performance.*

*H5: There is a significant relationship between strategic competency and SMEs performance.*

*H6: There is a significant relationship between commitment competency and SMEs performance.*

### **2.4 Mediating Effect of Dynamic Capabilities (DC) on the Relationship between Entrepreneurial Competency (EC) and SMEs Performance**

Despite all the presence of practical issues that influenced the success or performance of the SMEs in Malaysia, lack of studies have been conducted to investigate the role of dynamic capabilities on enhancing the effects of firm's intangible resources, namely EC, on the business performance of the Malaysian SMEs even though a

study by Woldesenbet et al. (2011) proved that the elements in the EC such as looking for opportunities, relationships and motivation, and DC are interrelated with one another.

According to Lin dan Wu (2014), DC is essential in becoming a transformer in the conversion from resources to the better performance of the businesses, which is based on the findings by Wu (2007) who proved that DC are significant neither in changing the sources of entrepreneurship to business performance, nor becoming a mediating variable between the sources of entrepreneurship and business performance. That is to say, without DC to convert the resources into advantage, entrepreneurial resources do not translate into performance (Zollo & Winter, 2002; Zott, 2003).

Additionally, Protogerou et al. (2012) found that DC influenced the operational capabilities, that significantly impacted the firm's performance. Moreover, previous studies had also been using DC as the mediating variable and the results were all significant (Wu, 2007; Jiang & Kortmann, 2014; Aminu & Mahmood, 2015). Thus, the finding of this study will provide valuable information to the owner-managers and practitioners on the important role of EC and DC in improving the business performance.

Therefore, it is essential to examine the mediating effect of DC on the relationships between the dimensions of EC and SMEs performance which is lacking in the literature. Thus, it is postulated that:

*H7: Dynamic capabilities mediate the relationship between opportunity competency and SMEs performance.*

*H8: Dynamic capabilities mediate the relationship between relationship competency and SMEs performance.*

*H9: Dynamic capabilities mediate the relationship between conceptual competency and SMEs performance.*

*H10: Dynamic capabilities mediate the relationship between organizing competency and SMEs performance.*

*H11: Dynamic capabilities mediate the relationship between strategic competency and SMEs performance.*

*H12: Dynamic capabilities mediate the relationship between commitment competency and SMEs performance.*

### 3.0 Methods

The study adopted a quantitative approach through survey instruments design and the population of the study was the owner-managers of the SMEs throughout Malaysia, including Sabah and Sarawak. A total of 234 responses were obtained and 231 were usable, producing 23.4% as an acceptable usable response rate. Subsequently, the Statistical Package for Social Sciences (SPSS) version 21 for Windows was used to generate the statistical results.

Data collection was made through questionnaires, and the constructs used were adapted from prior research and already tested for reliability. The instrument of EC was adopted from the scale developed earlier by Man et al. (2002) (40 items). The instrument to measure business performance was adopted from the work of Gupta dan Govindarajan (1984) (9 items). Finally, the instrument for measuring DC was adopted from Li dan Liu (2014) (15 items).

### 4.0 Results

#### 4.1 Descriptive Analysis

Table 1 summarizes the descriptive statistics of respondent's profile and characteristics. According to the table, in terms of the respondents' age, SMEs owner-managers in the age ranging from 36 to 40 years old have the majority score of 23.4%. 15.6% are in the range of 26 to 35 years old, and also 41 to 45 years old. This followed by 11.7% each of those in the age ranging between 46 to 50 years old and above. Fewer respondents are found in the age 25 years old and below.

With regard to the gender, majority of the respondents (59.7%) are male, while the percentage of female stated 40.3%. In relation to educational background, respondents who finished their secondary school accounted for 31.2% of the total respondents, while those who obtained their first degree accounted for 26.0%. 23.4% holds a diploma, and 13.0% holds a master. The lowest education level is primary school which accounted for 2.6%, while the highest education level obtained by the women owner-managers is PhD which accounted for 3.9% of the total respondents.

In terms of structure of ownership of the firms, most of them are sole proprietorships (48%), compared to partnership (33.8%) and private limited (18.2%). Finally, from Table 1, it is clear that most of the respondents are involved in the manufacturing sector which accounted for 46.8%, followed by service sector with 37.6%, construction 10.4%, and finally, agricultural 5.2%.

Table 1  
*Demographic Profile of the Respondents*  
(n=231)

Category	Frequency	Percentage
<b>Age:</b>		
Below 25 years	24	10.4
26 - 30 years	36	15.6
31 - 35 years	36	15.6

36 - 40 years	54	23.4
41 - 45 years	36	15.6
46 - 50 years	27	11.7
Above 50 years	18	11.7
<b>Total</b>	231	100%
<b>Gender:</b>		
Male	138	59.7
Female	93	40.3
<b>Total</b>	231	100%
<b>Education:</b>		
Primary	6	2.6
Secondary	72	31.2
Diploma	54	23.4
First Degree	60	26.0
Master	30	13.0
PhD	9	3.9
<b>Total</b>	207	100%
<b>Structure of Ownership:</b>		
Sole Proprietorships	111	48.0
Partnership	78	33.8
Private Limited	42	18.2
<b>Total</b>	231	100%
<b>Industry:</b>		
Manufacturing	108	46.8
Service	87	37.6
Agricultural	12	5.2
Construction	24	10.4
<b>Total</b>	207	100%

## 4.2 Regression Analysis

Multiple regression analysis was used to test the relationship between dimensions of EC and SMEs performance (H1-H6). The statistical results in Table 2 indicate that opportunity competency, organizing competency and strategic competency is significantly related to SMEs performance. The adjusted R-squared was obtained at 0.146 with a significant level  $p < 0.01$ . Therefore, this finding supports H1, H4 and H5.

The findings of this study are consistent with the results of the study by Lopa dan Bose (2015) and Thongpoon et al. (2012) about the role played by the opportunity competency to improve the performance of SMEs. Additionally, the findings are also

parallel with the previous research on EC that have identified organizing competencies as being related to the company's performance in terms of management efficiency (Chandler & Hanks, 1994), the efficiency of human resource management (Brownell, 2006; Redmond & Walker, 2008), and financial management (Brinckmann, Salomo, & Gemuenden, 2011). This result is also consistent with some previous findings, where Lopa dan Bose (2015) found that strategic competencies can affect the performance of SMEs.

The above results have confirmed the findings by Man, Lau dan Chan (2008) that the competence needed are different according to levels of management, sector and organization. In this study, only three dimensions of EC (ie: opportunity, organizing and strategic competency) were found to correlate with the performance of SMEs. To summarize, it was clear that SMEs owner-managers are less concerned about the relationship competency, conceptual competency and commitment competency, and in fact they can do better with the other competencies (ie: opportunity, organizing and strategic competency).

Table 2  
*The Regressions of EC Dimensions on the SMEs Performance*

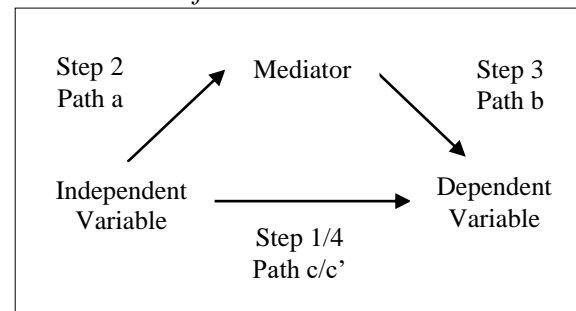
Dimension	$\beta$	t	Sig.
Opportunity	.213	1.937	.054
Relationship	-.036	-.286	.775
Conceptual	.132	1.067	.287
Organizing	-.308	-1.943	.053
Strategic	.344	2.457	.015
Commitment	-.022	-.184	.854
R <sup>2</sup>	0.146		
F	6.400		
Sig.	0.000		

Note: \*\*\*p<0.01; \*\*p<0.05; \*p<0.1

Dependant Variable: SMEs Performance

The mediating effect of DC on the relationship between the dimensions of EC and SMEs performance was tested based on a regression procedure specified by MacKinnon (1994). According to this procedure, for instance, step 1 involved the ability to show that independent variable was correlated with dependent variable (path c). Then, step 2 involved the ability to show how the independent variable was correlated with mediator (path a). This followed by step 3 which was to show that mediating variable affected the dependent variable (path b). Finally, step 4 involved showing the effects of independent variable and mediating variable on the dependent variable. Figure 1 indicates the conditions for mediation as explained previously.

Figure 1  
*The Process of Mediation*



Source: MacKinnon (1994)

Table 3 shows the results for the mediation test. First, in step 1 (path c), opportunity, organizing and strategic competency were found to significantly effected the SMEs performance. In step 2 (path a), relationship, conceptual and commitment were found to have significant relationships with DC. In step 3 (path b), ethics was found significantly effected SMEs performance at p<0.01 (R<sup>2</sup>=0.230, F=68.312, p<0.01). Finally, the absolute effects of relationship, conceptual and commitment competency on the SMEs performance becomes less when DC as mediator was added in the regression.

Thus, partial mediation was registered. These findings supported H8, H9 and H12, and rejected H7, H10 and H11.

Table 3  
*The Effects of DC on the Relationships between EC and SMEs Performance*

	R <sup>2</sup>	F	β	t
<b>Step 1</b>	0.1	6.40		
<b>(Path c)</b>	46	0		
Opportunity			.213	1.937
Relationship			-.036	-.286
Conceptual			.132	1.067
Organizing			-.308	-1.943
Strategic			.344	2.457
Commitment			-.022	-.184
<b>Step 2</b>	0.4	34.4		
<b>(Path a)</b>	80	56		
Opportunity			.117	1.337
Relationship			.166	1.666*
Conceptual			.342	3.465**
Organizing			-.159	-1.261
Strategic			.138	1.240
Commitment			.257	2.696**
<b>Step 3</b>	0.2	68.3		
<b>(Path b)</b>	30	12		
DC			0.470	8.265**
<b>Step 4</b>	0.2	12.1		
<b>(Path c')</b>	76	37		
Opportunity			.156	1.528
Relationship			-.117	-1.007
Conceptual			-.035	-.299

Organizing	-	-1.568
g	.230	
Strategic	.277	2.132*
		*
Commitment	-	-1.316
ent	.148	
DC	.490	6.316*
		**

## 5.0 Discussions

The first objective of this study was to determine the association between EC and Malaysian SMEs performance. This objective leads to the testing of the significant associations between the dimensions of EC (opportunity competency, relationship competency, conceptual competency, organizing competency, strategic competency and commitment competency) and SMEs performance in Hypothesis 1 until Hypothesis 6. In this study, the result from the model presents that only three dimensions of EC (ie: opportunity, organizing and strategic competency) has a significant effect towards SMEs performance. Therefore, posited that H1, H4 and H5 are supported. That is to say, SMEs owner-managers who are engaged with opportunity, organizing and strategic competency will perform better or succeed in their businesses.

To date, even though significant relationship were found between EC and SMEs performance, supporting the findings by Man, Lau dan Chan (2008) that the competence needed are different according to levels of management, sector and organization. Therefore in this study, it was verified that out of 6 dimensions of EC, only 3 dimensions are significantly related with SMEs performance (ie: opportunity, organizing and strategic competency) which suggested that some of the EC dimensions used in the overall SMEs studies might not be relevant to the small firms. Thus, they are less concerned

about the relationship competency, conceptual competency and commitment competency, and in fact they can do better with the other competencies such as opportunity competency, organizing competency and strategic competency.

Another objective of this study was to determine the mediating effect of DC on the relationships between the dimensions of EC and SMEs performance. This objective leads to the testing of Hypothesis 7 until Hypothesis 12 which asserts that DC mediates the relationships between the dimensions of EC and SMEs performance. Results reveal that DC mediates the relationships between relationship competency, conceptual competency and commitment competency, and SMEs performance. Thus, it can be said that SMEs owner-managers' dynamic capabilities play an important role through which their relationship competency, conceptual competency and commitment competency would develop their business performance, finally contribute to the economic growth.

The results of this study also revealed that the relationships between some of the dimensions of EC and SMEs performance are only effective after some re-configuration mechanism in an uncertain environment. These findings also reinforce the understanding of the role of EC in developing the DC, furthermore, the ability of DC in enhancing the organizational performance.

## 6.0 Recommendations and Conclusions

Based on the study outcomes and discussions, some suggestions for future research can be discussed. Firstly, other statistical methods such as Partial Least Squares (PLS) Regression, Structural Equation Modeling (SEM) and others, are

suggested for future research that may show more appropriate and detail results. This is because in this study the researcher only used SPSS version 21 for regression analysis.

Next, future research may want to consider setting up a survey instrument in Chinese, Indian or various languages would be an advantage especially in a multiracial country like Malaysia. This might attract greater participation from the owner-managers of SMEs from other races, further generalizing the distribution.

As a conclusion, this study has provided empirical evidences on the relationships between EC and SMEs performance in Malaysia. In addition, the testing of the mediating effect of DC has proven that DC is one of the important predictors in boosting the relationships between EC dimensions and business performance particularly among the SMEs owner-managers in Malaysia.

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