The Relationship of Entrepreneurial Competencies and Business Success of Malaysian SMEs: The Mediating Role of Innovation and Brand Equity

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ABSTRACT

This conceptual paperis to study the relationship of entrepreneurial competencies on business success in the context of Malaysian SMEs. Inthe recent study, when the business environment is hostile and dynamic, the entrepreneurial competencies are identified as the most important factor in business success. Entrepreneurial competencies are also connected directly to business performance.Beside entrepreneurial competencies, the entrepreneurs should also be competent to create an innovation and brand equity for business growth. The innovation and brand equity contributed to competitive advantages that lead to business growth and success. This paper adopts the Resource Based Theory (RBT) which emphasize that entrepreneurial competencies, innovation, and brand equity are valuable and intangible resources that lead towards the success of business. There is a dearth of studies that have examined the influence of innovation and brand equity on the relationship of entrepreneurial competencies on thesuccess of Malaysian SMEs business. Therefore the current study strives to investigate the mediating impact of innovation and brand equity on the relationship between entrepreneurial competencies and SMEs business success. This conceptual study will contribute to the existing body knowledge as well as to entrepreneurs of Malaysian's SMEs.

Keywords: Entrepreneurial Competencies; Innovation; Brand Equity; Business Success; SMEs

1. INTRODUCTION

Small and medium business is very important to the world economies (Syed et al., 2012; Wiklund, Patzelt, & Shepherd, 2009). Throughout the world, the role of SMEs is becoming increasingly prominent (Bayarcelik, Tasel & Apak, 2014; Veskaisri at el., 2007). It plays a crucial role in the economic growth of most nations regardless status of countries (Mahmod &Hanafi, 2013). Small and medium enterprises (SMEs) is commonly used in international organizations and European Union countries, such as the United Nations (UN), the World Bank and The World Trade Organisation (WTO). SMEs represents 99% of overall active firm globally, and SMEs created around 60% to 70% of total employment (Loewe, Al-Ayouty et. al., 2013). According to Economic Cooperation and Development (OECD), SMEs represents more than 95% of enterprises and ensure around 70% of the jobs. A vibrant SME sector is one of the principal driving forces in the development of the market, hence its is not surprising that since the 1080s the birth and growth of new firms has been seen as amajor source of economic growth (Gray, Saunders & Goregaokar, 2013).This is seconded by many researchers claimed that SMEs are animportant agent to develop a country (Oke, Burke & Myers, 2007).The importance of SMEs for economic development among major world economies has long been recognised. In Malaysia, SMEs play a significant role towards Malaysian economy (Yahya, Othman & Shamsuri, 2012; Hilmi & Ramayah, 2009) and the development of SMEs of is crucial for creating economic resilience and national growth (UNDP Annual Report, 2007). SMEs are more responsive to market demands and in particular, are perceived as an important means of job creation (Sajilan, Gadar et. al., 2015; Hallberg, 2000). However, the numbers of SMEs in Malaysia are started to deteriorate after the recession in 2009 (Chowdhury, 2011; Barhim, 2009). The rate of SMEs growth declined from 2004 to 2009. The SMEs rate of performance growth in the year 2004 was 8.3 % but contracted in 2009 to -0-4%as reported in SME Annual Report 2010. Due to the substantial decline in growth, SMEs need to take theserious initiative to recover. SMEs should review their performance from time to time due to changes in the environment (Cocca & Alberti, 2010).

The purposes of this study are to identify the set of entrepreneurial competencies that seems importantamong Malaysian entrepreneurs;to identified the factors that defined business success in Malaysia SMEs perspective; and through proper management of innovation and brand equity, managers can optimize limited resources and capabilities of SMEs to achieve long-term high performance.In view of the preceding discussion, theobjectives of the paper are:

i. To investigate the relationship between entrepreneurial competencies and business success in SMEs.
ii. To identify the mediating effects of innovation and brand equity on entrepreneurial competencies and business success.

1.1 Overview of Malaysia SMEs

Small and Medium Enterprises (SMEs) are considered as the engine of themodern economy, whether we are referring to developed countries or emerging new power economy block. These companies is a fundamental for economy growth, flexibility in themarket and dynamic operating firm. According to Organisation for Economic Cooperation and Development (OECD), SMEs represents more than 95% of enterprises and providing up 70% jobs. The performance of SMEs is depended a lot on a good environment that they are operating. In Malaysia, more attention has been given to assisting SMEs to achieve another high level. The government has established the High-Level National SME Development Council chaired by Prime Minister to ensure all SME development activities are coordinated (Asia-Pacific Economic Cooperation, 2004). In 2014, Malaysia SMEs recorded growth at 7.1% versus 4.9% for the overall economy. SME's contributed 36% to GDP in the year 2014, which recorded an increased 3% compared with previous year 33.5% (Anual Report SME, 2014/15). The percentage contribution of different sectors to the economy is shown in the Tables 1 below:

Table 1: Percentage contribution of different industry sectors to Malaysia GDP

Industry Sector	2014	2013	2012
Services	21.1	20.5	20.0
Manufacturing	7.8	7.5	7.4
Agriculture	4.5	4.0	4.1
Construction	2.0	1.1	1.0
Mining & Quarrying	0.1	0.1	0.1
Other	0.4	0.3	0.3
Total	**35.9**	**33.5**	**32.9**

Source: SME Annual Report 2014/15

Definition of SMEs
The latest definition of Malaysian's SMEs is shown in Table 2.

Table 2: Definition of SMEs in Malaysia

Category	Micro	Small	Medium
Manufacturing	Sales turnover less than RM300,000 OR full-time employees less than 5	Sales turnover from RM300,000 to less than RM15 million OR full-time employees from 5 to less 75	Sales turnover from RM15 million to not exceeding RM50 million OR full-time employees from 55 to not exceeding 200
Services and other sectors		Sales turnover from RM300,000 to less than RM3 million OR full-time employees from 5 to less 30	Sales turnover from RM3 million to not exceeding RM20 million OR full-time employees from 30 to not exceeding 75

Source:SME Corp, 2013

2. LITERATURE REVIEW

This section will highlight the review of studies vital to entrepreneurial competencies, business success, innovation, brand equity and Resource Based Theory (RBT).

2.1 Entrepreneurial Competencies

Entrepreneurial competencies respond to Ahmad, T.Ramayah, Wilson, et. al. (2010); Vijaya, Das & Das (2015); Umeze & Ohen (2015) and Man (2001), suggested that there is asignificant relationship between entrepreneurial competencies and business success. According to Bird (1995, p. 51), entrepreneurial competencies, which are defined as "underlying characteristics such as generic and specific knowledge, motive, traits, self-image, social roles, and skills which result in venture birth, survival, and/or growth", may be the key to improving a firm's performance. As mentioned by Brophy and Kiely (2002) the competency approach (which examines the competencies of key players in organisations) is "an approach whose has come' due to its potential to identified behaviour that could be associated with effective performance." Although it has been difficult to ascertain why, in similar situations, some entrepreneur fail while other succeed, it is thought that the focus on "entrepreneurial competencies" offer a practical means of addressing this phenomenon. The clearly definitions is highlighted by Hoffman (1999), competencies have been defined in three: (i) observable performance (the output), (ii) the result of person's performance and (iii) the underlying attributes of a person such as knowledge, skills, and abilities. Most studies that attempt to understand managerial competencies adopt this third definition of competencies. Ten dimensions of entrepreneurial competencies were identified throughempirical study done by Man (2001), Chandler & Jansen (1992) and Ahmad (2007) as followings:

Strategic Competency
Strategic Competency is a competency related to planning, implementing, monitoring and evaluating the business strategies drawn for thefirm (Man, Lau & Chan, 2002).

Commitment Competency
According to Man, Lau & Chan, 2002, Commitment Competency is a competency that drives the entrepreneur to achieve the goals that have been set-up.

Conceptual Competency
Conceptual Competency for Chandler and Jansen (1992), reflects the "mental ability to coordinate all of the organisation's interest and activities." Conceptual competency is much related to the ability to develop new ideas and does critical thinking (Michalko, 2000).

Opportunity Competency
Opportunity Competency is defined as the ability related to recognising market opportunities through various means (Man, Lau & Chan, 2002), by measuring few behaviours such as offering products that demanded by customers.

Organising Competency
Man (2001) suggested that entrepreneurs must master the art of organising the internal and external environment to ensure the firm survival.

Relationship Competency
Relationship Competency is defined as the organisation of different internal and external; it may involving people, employees, financial, technology, business partners and suppliers (Man, Lau & Chan, 2002).

Learning Competency
Learning Competency refers to the entrepreneur's ability to learn from theformal and informal situation. Among learning areas were market knowledge, latest information regarding industry; and this information, skills, knowledgebeen turned into practices" (Man, 2001).

Personal Competency
Personal Competency defines as the ability self-energetic, self-motivated, positive thinking all the time, able to handle criticism, efficient time-management, maximise own strength, learn to overcome weaknesses, grab opportunities spread in the market and ability to work by his/her alone (Man, 2001).

Technical Competency
Technical Competency defined as the ability to use the tools, procedure, and technique of a specialised field (Chandler & Jansen, 1992). It was seconded by Baum et al. (2001) on a study that examined the effect of specific competencies (technical & industrial skills) towards business growth, and they found that technical skills have a positive significant impact on business growth.

Familism Competency
Park (2003) suggested Familism Competency viewed as an element of the collectivist cultures, but there have been no previous studies that have linked the competency domain to entrepreneurial success. A study done by Ahmad (2007) confirmed that this is one of the entrepreneurial competencies that contributed to business success in Malaysia.

2.2 Innovation

Innovation has been defined differently by many scholars (Boer & During, 2001; Cakar & Erturk, 2010; Damanpour, 1991). Innovation refers to new or improved products into themarket. Firms need to have something unique and distinctive regarding products, services, market, process, strategy, and market, among others (Cakar & Eturk, 2010; Otero, Lindman & Fernández, 2009). Innovation involves the process of ideas through customers, and it is not restricted to product innovation (Carson & Gilmore, 2000). Based on Weerawardena's (2003) definition, innovation refers to the application of ideas that are new to the film and create added value directly for the enterprise or indirectly for its customers, regardless of whether the newness and added value are embodied in products, processes, work systems or marketing systems. Several researchers have found innovation to have a significant relationship with business success

(Hernard & Szymanski, 2000; Li & Atuahene-Gima, 2001). There are few innovations identified in previous studies, however these three dimensions were most significant in SMEs (Al-Ansari, Pervan & Xu, 2013).

Product Innovation

Product Innovation is defined as improvements made on product mix, the choice and the development of products in the organisation perceived as new (Neira, Lidman & Fernandez, 2008). It involves technical innovation process by identifying the consumer needs to commercialize products and services. Kotler (1994) defines product innovation as any goods, services or idea perceived as new.

Process Innovation

Process Innovation embrace business process reengineering (Cumming, 1998) to enableorganisation to exploit a new market (Avermaete et al., 2003). Process innovations are those that reduce the cost of production or increase the efficiency of production. Process innovation also could be referred as company's investment in systems, technology and people (Laforet & Tan, 2006).

Market Innovation

Market innovation is regarding the improvement mix of target markets and how selected markets suited the organisation to achieve the objectives (Johne, 1999). The two important characteristics of market orientation are to find the best potential market and better ways to serve target markets. From the organisational perspective, innovation success depends on the marketplace and thus devising market innovation is vital for organisations to achieve higher sustainable performance in term of sales (Neira, Lindman & Fernandez, 2009). For SMEs, targeting a new potential market by segmenting into smaller and manageable parts is important (Johne, 1999).

2.3 Brand Equity

Aaker's (1991) definition, brand equity in this study is defined as a set of brand assets and liabilities linked to a brand, it's a name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm's customers. Brand equity can be divided into three main dimensions: brand loyalty, brand awareness, and perceived quality. Many researchers found a significant relationship between brand equity and business success (Kim & Kim, 2005).

Brand Loyalty

Brand loyalty defines as customer's attachment to a brand, and its dividend into attitudinal, behavioural and choice perspectives (Aaker, 1991). Brand loyalty is acomplex multidimensional concept (Norjaya et. Al, 2007). Brand loyalty can be achieved and maintained by meeting customer's expectation or even exceeding them by providing extra services and managing customer satisfaction (Aaker, 1991).

Brand Awareness

Brand awareness denotes the ability of consumers to remember, recall and recognise certain brand of product (Aaker, 1991). According to Keller (1993), brand awareness is a dimension of brand knowledge which refers to the strength of the brand node or trace in memory.

Perceived Quality

Perceived quality refers to consumer's perception about the overall product excellence or superiority (Grace & O'Cass, 2002). Perceived quality is the key dimension of brand equity and is believed to increase the value of the brand by influencing consumers with a reason to make purchases (Zeithaml, 1988).

2.4 BUSINESS SUCCESS

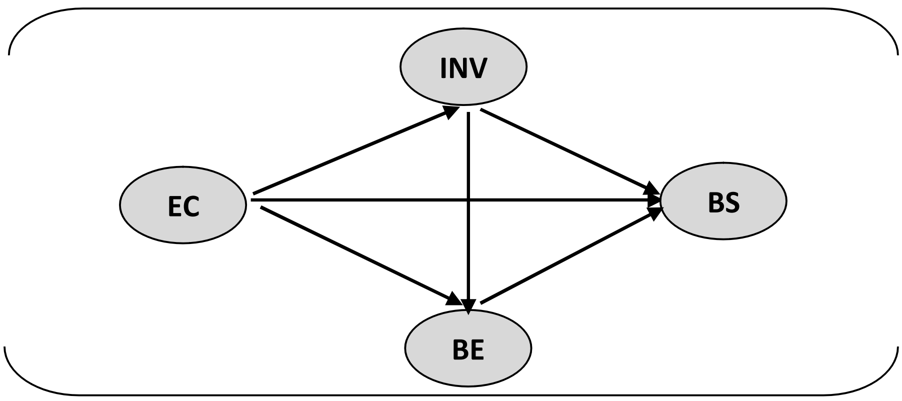
In SME business, the term of business success has not been given specific definition. In general, business success can be defined as thefirm continued operating. This contradicts with “failure,” means firm ceased the operating of business (Simpson, Tuck & Bellamy, 2004). Based on theprevious study, there are at least two important dimensions of success: 1) financial versus other success and 2) short-term versus long-term success. According to Vesper (1990), business success can be measured in many dimensions such as profit, market share, investment, good will and personal quality time. This principal idea of business success hasbeen shared by another scholar (Kay, 1995). The entrepreneur themself-identified the success based on purposes of set-up the business (Simpson, Tuck & Bellamy, 2004).

2.5 RESOURCE BASED THEORY

Theories that incorporate entrepreneurial competencies, innovation and brand equity towards business success are Resource Based Theory (RBT) and it will be the fundamental of atheoretical framework for this study. RBT theory developed by Penrose (1959) stated that firms possessing the productive managerial resources would be able to gain the highest levels of growth and profitability. The main basis of RBT is based on the distinctive competencies and the competitive profitability (Penrose, 1959). Resources were defined as all the assets, capabilities, organisational process, firm attributes, information, and knowledge of firm (Barney 1991).

3. PROPOSED CONCEPTUAL FRAMEWORK

Figure 1 depicts the hypothesized model thatlinks the entrepreneurial competencies, innovation, brand equity and business success. The proposed theoretical construct of entrepreneurial competencies refers to strategic, commitment, conceptual, opportunity, organising and relationshipadopted from Man (2001). The innovation refers to product innovation, process innovation, and market innovation. Brand equity refers to perceived quality, and business success constitutes both financial and non-financial performance of the firm.



Key: EC – Entrepreneurial Competencies; INV – Innovation; BE – Brand Equity; BS – Business Success

Figure 1: Proposed Conceptual Framework

4. CONCLUSION

This paper has described the conceptual framework regarding the important of entrepreneurial competencies towards the business success of SMEs by incorporating innovation and brand equity as a mediator between the relationship of the independent and dependent variables. As the existing literature reveals the important of entrepreneurial competencies towards business success, this paper thus argues that through innovation and brand equity, this relationship can be more improved. Rosenbusch, Nina & Brinckmann (2011) urged that innovation has apositive effect on SME performance and business success.Many researchers found a significant relationship between brand equity and business success (Craven & Binder, 2003; Kim & Kim, 2005). Thus this article serves as conceptual paper; its suggests that an empirical study should be conducted in future by using the conceptual framework to see the impact of innovation and brand equity as a mediator between entrepreneurial competencies and business success. The findings can be used to develop comprehensive entrepreneurshiptraining and introduce policies that enhance business success in Malaysian SMEs context.

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