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ENTREPRENEURIAL COMPETENCIES, ORGANIZATION
STRUCTURE AND SMEs PERFORMANCE IN NORTHERN
MALAYSIA

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Abstract:

Small and Medium Enterprises (SMEs) received great attention on its contributions in the policies of economic and social development either in the countries that have developed or in developing countries. However, there has not been much research focuses on performance of SMEs in Malaysia especially in manufacturing sector. The purpose of this study is to examine the relationship between entrepreneurial competencies, organizational structure and SMEs performance in Northern Malaysia. A random sampling technique is used by using questionnaires and data is analyzed by SPSS 19. The present study aimed at providing an overview of the role that is assumed by the entrepreneurs whereas recommendations have been proposed for practitioners and researchers to cope with the challenges that Small and Medium Enterprises (SMEs) are facing currently. Finally, this study will provide important information on the management and organization structure practices of entrepreneurship among SMEs in Malaysia.

Keywords:

Small And Medium Enterprises, Entrepreneurial Competency, Organizational Structure, Performance

Introduction

In the policies of economic and social development, Small and Medium Enterprises (SMEs) received great attention neither in the developed countries nor in the developing countries. Many researchers have acknowledged the important role played by the SMEs (Ahmad & Bakar, 2019; Love & Roper, 2015; Brambilla, Lederman, & Porto, 2012). SMEs are important in most countries' national employment, domestic services and products, and overall economic

performance (Gilmore, Galbraith, & Mulvenna, 2013; Zhu, Wittmann & Peng, 2012). In addition, the sectors covered by the SMEs are able to develop a dynamic economy and large-scale of production. The role of SMEs in the creation of productive employment and generate many sources of strength in the growing economy. Economic planners have begun to focus on the significant role played by SMEs in economic development (Ahmad & Bakar, 2019).

Despite the significant contribution to the national development, SMEs in Malaysia only contribute 31% to GDP as compared to our neighbouring countries like Singapore which contributes 49% and Thailand 38% contribution to GDP, and this is far lower compared to SMEs in developed economies country such as Germany and Japan which contributes 53% (SME Annual Report, 2012). Furthermore, the issues of the weak performance of SMEs in Malaysia have long argued and it is still continue until now.

On the other hand, the study of relationship between structure of the organization and performance among small firms by Meijaard, Brand & Mosselman (2005) found that in the past several decades, attention to this topic is relatively quite limited. However, SMEs have advantages due to their entrepreneurial characteristics and their flexible structures which can make it easier for them to adopt and/or generate innovations through strategic networks or value-chain activities (Mahemba & De Bruijn, 2003).

Hence, the scope of this study is to examine the relationship of the entrepreneurial competencies and organization structure that affect the performance of SMEs in the northern Malaysia.

Literature Review

SMEs Performance

The taxonomy of performance for SMEs has been depicted by different schools of thought through scholarly studies, consultations, and business practices. The distinction between the paradigmatic definitions of performance is distinguished by the stages of development in researching and planning the small business management. It is the interplay of experience and conceptualization along this learning threshold that drives the evolution of the term 'performance' as a measurement, management, or assessment (Folan, Browne, and Jagdev, 2007). According to Hazlina et. al (2010), studies of business success or performance in SMEs can generally be categorized into two broad groups. The first highlights the role of external factors in determining success, whereas the second emphasizes the internal aspects of SMEs, specifically, the organizational variables and the characteristics of the entrepreneur.

Entrepreneurial Competencies

The concept of competency is not something new in the field of management. Mintzberg (1973) has identified ten key roles of managers and management scholars have conducted research competencies related to roles that can lead to superior performance in the organization. Based on Bird (1995), entrepreneurial competencies classified as "underlying characteristics (motives, generic specific knowledge, self-images, traits, social roles, and skills) which result in venture birth, survival and growth.

In this point of view, it is believed that by understanding the role of entrepreneurs, better insight into the competencies required for the survival and success in the SME business can be generated. Researchers have reached a consensus on the fact that the SME entrepreneurs

operating in complex and challenging assume tasks that require them to engage in a number of different role. An in-depth analysis of entrepreneurial competencies saw competencies of entrepreneurs as having dual origins: first, components that are more deeply rooted in the entrepreneurs background (i.e. traits, personality, attitudes, self image, and social roles) and second, components that could be acquired at work or through theoretical or practical learning (i.e. skills, knowledge, and experience) (Man & Lau, 2005).

Organization Structure

The organizational structure defines the chain of command and accountability (Mansoor, Aslam, Barbu, Capusneanu & Lodhi, 2012). Decisions relating to division of task, authority, and a set of coordination mechanisms involves organizational structure. Organizational structures are coherent systems for performing work in the most proficient manner (Parthasarthy & Sethi, 1992). Organizational structure plays a significant role to assist management team to accomplish its objectives and pursue the firm's strategy, (Robbin & De Cenzo, 2005). Based on the recent study, mechanistic and organic are the basic two structures of an organization. Mechanistic defined as hierarchical systems dominated by high formalisation and top-down management. On the other hand, organic organisations defined as a low formalisation, network structure of control and authority, and fluid job descriptions (Burns & Stalker, 1994; Reigle, 2001).

An appropriate organizational structure that facilitates and eases coordination of organizational processes is the fundamental factor for achieving set goals of the organization (Mansoor et al., 2012). Modern organizational structures have to constantly change to market demands and as a result an increasing number of companies have turned to what are commonly known as "soft" competencies (Goleman, 2006; Wilson, 2010).

Methodology

This study specifically aims to examine the performance of SMEs in northern Peninsular of Malaysia and its relationship with entrepreneurial competencies and organizational structure. Therefore this section will explain the methods used to achieve the purpose of this research. Among the topics that will be covered in this section are the research design, selections of respondents, the research procedures, instruments and hypotheses used in this study.

Research Design

Research design used for this study is a survey method. Through this study, the researchers expect to be able to know the real situation in a more realistic (Kerlinger, 1973). To perform this data collection for the study, questionnaire was managed on the "drop and collect" basis (McCarthy, O'Really & Cromin, 2001) throughout SMEs in northern states of Malaysia.

This study focuses on the relationship between variables that affect the entrepreneurial process. According to Brehm, Kassin, and Fein (1999), a study to determine the relationship between variables can be done by means of a correlation study. A correlational study can be conducted using observation, archival or survey. In this study, a survey is used to collect primary data (Zikmund, 2000). Thus, the subject or respondent in a study is not restricted to certain restrictions to the questionnaire.

Unit of Analysis

Unit of analysis is defined as the type of unit uses by a researcher to measure variables under study (Neuman, 1997). It is used to explain the units themselves that refers to what is being

analyzed in the study. In this research, the unit of analysis is an organizational level where SMEs owners/managers are chosen as respondents since they are key informants and know about the business and they are in an appropriate position responding to this study (Murjan, 2012). The unit of analysis in this sample is SMEs in the northern Peninsular of Malaysia. Managers or owners of SMEs are chosen to answer this questionnaire because their perception of their firm is more accurate and more consistent with the objectives of the study as compared with employees and other parties in their firm.

Data Collection Procedures

A questionnaire is prepared to collect survey data from SME owners who have been chosen. Data collected through the questionnaire was managed on the “drop and collect” basis (McCarthy, O'Really & Cromin, 2001) throughout SMEs in northern states of Malaysia. It needs to be answered by the selected respondent with a pen or pencil. Mode of data collection considered as personally administered questionnaires which is answered by the respective respondent and to be collected by researcher after completed or within seven-day time.

Instruments

This section will describe how the variables involved in this study measured and tracked. The variables involved are the performance of SMEs, which represent the dependent variable and entrepreneurial competencies and innovation which represent variables or independent variables studies.. In fact, measurement is a systematic step to measure variables or constructs that include activities to determine the dimensions of the research concept, formulate measurement for each dimension, specify the level of measurement that will be used, determines the validity and reliability measurement tools (Coakes & Steeds, 2001; Sekaran, 2000). Muijs (2004) explained the quantitative studies should be conducted when quantitative answers are required, the state of someone or something is also required, a phenomena needs to be explained and related changing factors or when the hypotheses tested require quantitative analysis.

Hypotheses

The following hypotheses are developed in this research:

- H1: Entrepreneurial competencies have a significant relationship with the performance of SMEs.
- H2: Organizational structure has a significant relationship with the performance of SMEs.
- H3: Entrepreneurial competencies and organizational structure have a significant relationship with the performance of SMEs.

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