

**EFFECT OF BUSINESS COACHING ON
GROWTH AND PERFORMANCE AND THE
MODERATING ROLE OF COMPETITIVE
ADVANTAGE IN SMALL MEDIUM
ENTERPRISES IN MALAYSIA**

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**ASIA e UNIVERSITY
2022**

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ADVANTAGE IN SMALL MEDIUM ENTERPRISES IN MALAYSIA

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A Thesis Submitted to Asia e University in
Fulfilment of the Requirements for the
Doctor of Philosophy (Business Administration)

July 2022

ABSTRACT

High-impact growth is vital to the survival and sustainability of all small and medium enterprises (SMEs). Unfortunately, most SMEs' leaders do not invest sufficient time and resources in building employee competencies and assuring their organisations' high-impact growth. In Malaysia, an inadequacy of business coaching in the nation's SMEs necessitates more research into the effects of business coaching on the high-impact growth of SMEs. This study aimed to examine the effects of motivation, productivity, job satisfaction, innovation, and business model innovation on the growth and performance of SMEs in Malaysia and the moderating role of competitive advantage. A positivist philosophical approach was employed to investigate the effect of business coaching on growth and performance and the moderating role of competitive advantage in SMEs. Besides, this study adopted a causal research design. A survey questionnaire was utilised to collect data from respondents, while structural equation modelling was employed to analyse the data. According to the study's findings, motivation, productivity, innovation, and improved business model innovations positively and significantly influence the growth and performance of Malaysian SMEs. The study's findings also revealed that comparative advantage has a positive and significant influence on Malaysian SMEs' growth and performance. The findings of this study enlighten SME leaders in Malaysia and other stakeholders on the value of business coaching on the growth and performance and the key role of competitive advantage in Malaysian SMEs. The findings also have critical implications for business coaching among SMEs. The study posits that Malaysian SME leaders should promote motivation, productivity, job satisfaction, innovation, and improved business model innovations in their businesses to realise improved growth and performance.

Keywords: Business coaching, small and medium-sized enterprise (SME), high-impact growth

APPROVAL

This is to certify that this thesis conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Doctor of Philosophy (Business Administration).

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DECLARATION

I hereby declare that the thesis submitted in fulfilment of the PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

Name: Azizan Osman

Signature of Candidate:

A handwritten signature in black ink, appearing to read 'Azizan Osman', with a long horizontal stroke extending to the right.

Date: 1 July 2022

ACKNOWLEDGEMENTS

I wish to thank Allah for giving me the grace and strength to complete my thesis. I want to dedicate my thesis and present my sincere thankfulness to my late supervisor, Associate Professor Dr Wan Sabri Wan Hussin, who passed away recently, for his great role in my life and his numerous advice during my PhD journey. I offer my heartfelt gratitude to him, who persistently and meticulously led and corrected my work. I will be ever grateful for his assistance. I would also like to thank Asia e-University, notably the School of Graduate Studies, for supporting me during course work and allowing me to complete my thesis professionally. I also thank my peers for their assistance in refining my PhD thesis.

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LIST OF ABBREVIATIONS

3P	Presage-Process-Product
ADF	Asymptotic Distribution Free
AMOS	Analysis of a moment structures
AVE	Average variance extracted
BMI	Business model innovation
CB-SEM	Covariance-based structural equation modelling
CEOs	Chief Executive Officers
CFA	Confirmatory factor analysis
CLEAR	Contracting, Listening, Exploration, Action, Review
d _G	Geodesic distance
d _{ULS}	Squared Euclidean distance
EFA	Exploratory factor analysis
EM	Expectation maximisation
EQS	Equation modelling software
ERG	Existence-Relationship-Growth
GDP	Gross domestic product
GoF	Goodness of fit
GROW	Goal, Reality, Options, Will
HTMT	Heterotrait-monotrait ratio
IMF	International Monetary Fund
KMO	Kaiser-Mayer-Olkin
LISREL	Linear structural relations
MAR	Missing at random

MCAR	Missing completely at random
MFP	Multi-factor productivity
MI	Multiple imputations
MNAR	Missing not at random
MVA	Missing value analysis
NFI	Normed Fit Index
OECD	Organisation for Economic Co-operation and Development
PLS	Partial least squares
PLS-SEM	Partial least squares structural equation modelling
RBV	Resource-based view
RMSR	Root means square residual
SAS	Statistical Analysis System
SEM	Structural equation modelling
SMEs	Small and medium-sized enterprises
SPSS	Statistical Package for the Social Sciences
SRMR	Standardised root means square residual
VIF	Variance inflation factors
VRIN	Valuable, rare, inimitable, non-substitutable

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter evaluates the study's background and outlines the problem statement, research aims and objectives, research hypotheses, study rationale, the study scope, and a summary of the thesis structure.

1.1.1 Background of the Study

Small and medium-sized enterprises (SMEs) and the economic development of a nation are dependent on growth. The SME sector is the engine that drives the economy (Eggers, 2020). In addition, SMEs are critical to economic growth, particularly for developing nations such as Malaysia, which seek to be innovation-driven (Hanifah et al., 2019). Thus, the expansion of SMEs is significant because it influences the economy. Bayraktar and Algan (2019, p. 56) noted that SMEs constitute most of the global business sector. Consequently, governments must prioritise growth and expansion. The authors highlighted that SMEs are crucial economic drivers as they promote innovation, employment, poverty alleviation, the creation of jobs, and economic growth. Research by the World Trade Organisation revealed that SMEs account for 90% of the company population and 60 to 70% of worldwide job prospects (World Trading Organisation, 2016). The research disclosed that SMEs contribute 55% of the gross domestic product (GDP) in emerging economies. The World Trade Organisation highlighted that SMEs are potential global traders. As a result, SME growth is crucial not only for a nation but also for the global economy as a whole. Consideration of SMEs is crucial since they play critical social and economic

responsibilities (Bayraktar & Algan, 2019, p. 56). Furthermore, the growth of SMEs depends on innovation and ingenuity (Halim et al., 2019, p. 16). Thus, SMEs must be innovative and expand their competence to increase their economic competitiveness.

In fact, Erdin and Ozkaya (2020) stressed that SMEs contribute to the socio-economic growth of a nation by providing more flexible options than other economic sectors. They further argued that SMEs are crucial for the economy since they contribute greatly to deploying new technologies, hence producing disruptive innovation in the market. Chen et al. (2017, p. 140) asserted that disruptive innovation has become vital for the growth and development of SMEs. The authors emphasised that SMEs may not experience development owing to technological disruption and a lack of innovation. Disruptive innovation does not result in superior products but rather facilitates the sustainable expansion of SMEs. A strong probability exists that SMEs which implement disruptive innovation will experience growth and obtain a market edge. Kumar et al. (2019, p. 334) suggested that management training is essential for SMEs to fulfil their company objectives.

As a matter of fact, SMEs concentrate on profit maximisation and revenue expansion (Hughes et al., 2018). Chen et al. (2017, p. 145) concurred that SMEs should prioritise profit maximisation to secure their continued existence. Profit reflects the corporate expansion and organisational performance. The authors also asserted that SMEs might increase their profits by employing forward-looking strategies that emphasise new product creation and improvement. Product enhancement increases organisational success (Sivakumar & Feng, 2019, p. 27), boosts client reaction, and ultimately contributes to growth. Therefore, SMEs should continuously make product enhancements by conceptualising consumer perceptions and formulating relevant tactics in order to promote sustainable growth.

Byrne et al. (2016) suggested that small and medium-sized business management greatly impacts their overall success. Likewise, M'zungu et al. (2017) concurred that brand management impacts SME performance. Positive management fosters inventiveness and originality, influencing an organisation's operational and strategic views. Organisational performance is driven by effective management. Child et al. (2017) observed that SME owners are required to handle numerous company facets, including operations, branding, marketing, business administration, and personnel management. These facets significantly impact the overall success of SMEs. Thus, SME owners must conduct regular appropriate training and coaching to enhance company management (Sung et al., 2016).

Training is essential for increasing SME owners' passion for coaching and training sessions, which relates directly to their mediocre performance or failure (Pham & Nguyen, 2017). Employees lack the skills, knowledge, competencies, and capacities necessary to perform their job duties effectively or to operate according to SMEs' expectations due to the lack of enthusiasm of SME owners for staff training or coaching. The lack of passion exhibited by SME owners has had a detrimental effect not only on individual employee performance but also on the overall performance of SMEs. These two categories of performance can be associated with the success of SMEs based on the efficacy of their owners in managing important business operations (Bin Atan et al., 2015). Business owners must provide necessary training and mentoring to their employees.

1.1.2 Brief Perspective on SMEs in Malaysia

The International Monetary Fund (IMF) placed Malaysia's economy sixth in South-East Asia and 39th worldwide (Kamaruddin & Shamsudin, 2021). SMEs in

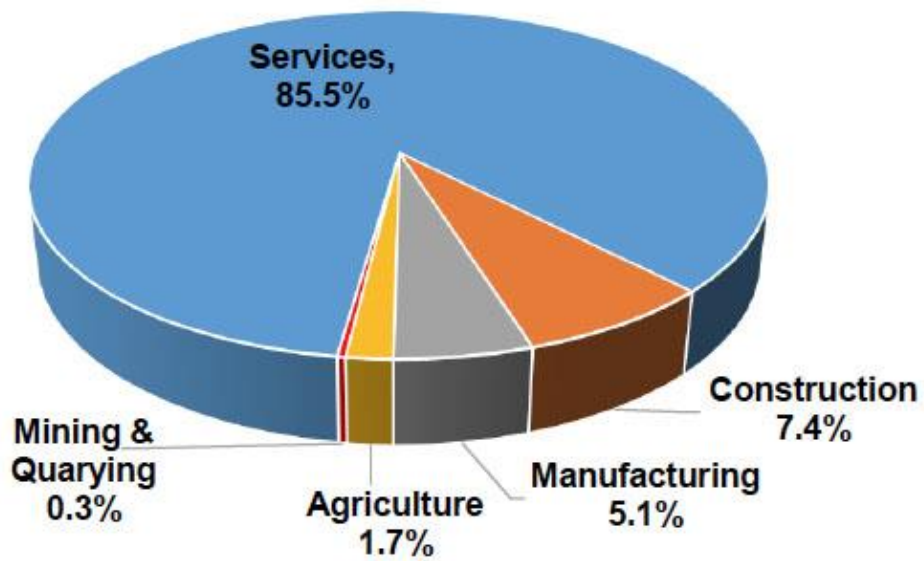
Malaysia are vital to the nation's economic progress. Hence, Malaysian SMEs have made substantial contributions to employment, revenue, and economic growth. According to Bank Negara Malaysia (Central Bank of Malaysia), there are three definitions of SME in Malaysia (WeCorporate, 2021). For instance, SMEs can be categorised by yearly sales volume, personnel count, and paid-in capital. Malaysian SMEs have been defined by three institutions: the Central Bank of Malaysia, Lembaga Hasil Dalam Negeri (the Malaysian tax office), and the Malaysian Ministry of Human Resources. According to The Central Bank of Malaysia, SMEs may be further divided into two categories: manufacturing and services and other sectors. Micro firms in the manufacturing sector must have yearly sales of less than RM300,000 or employ less than five people. Besides, the number of employees in SMEs must range from five to 75, or full-time employees must be between 75 and 200. These SMEs contribute around RM521.7 billion to the nation's GDP.

In addition, Malaysian SMEs account for about 66.2% of all job possibilities. As reported by SME Corporation Malaysia (2020), SMEs may be identified based on yearly revenue, staff headcount, and paid-in capital. WeCorporate (2021) reaffirmed the Central Bank of Malaysia's definition of SMEs, which specifies that SMEs in the manufacturing sector are firms with annual sales of less than RM50 million or less than 200 full-time workers. The annual sales of service-sector SMEs should not exceed RM20 million, nor should the number of full-time workers exceed 75. Additionally, the Malaysian Tax Authority or Lembaga Hasil Dalam Negeri (Malaysia Tax Return Agency) defines an SME as a firm with a paid-up capital of RM2.5 million or less and a relationship to a firm with a paid-up capital of more than RM2.5 million. The Malaysian Ministry of Human Resources classified SMEs in terms of their workforce by stipulating that micro firms must have less than 75 employees. For small businesses,

the number of employees should range between 76 and 200, while employees for medium-sized businesses should be less than 200.

1.1.2.1 Profile of Malaysian SMEs

In 2020, a total of 1,151,339 SMEs were present in Malaysia, constituting 97.2% of all business enterprises (SME Corporation Malaysia, 2021). The figures suggest that the number of SMEs in Malaysia has expanded by 4.9% annually since 2015. Notably, more than 80% of all SMEs are located in the services industry, which has steadily and continuously witnessed growth. In 2020, 85.5% of all small and medium-sized businesses, or 984,643, operated in the service industry. The percentage of SMEs in the construction industry climbed to 7.4%, or 85,637 businesses. Approximately 5.1% of small and medium-sized businesses, or 58,439 businesses, were involved in manufacturing. The proportion of SMEs in the agriculture industry was 1.7% or 19,130 businesses. In the mining and quarrying industry, there were 3,490 SMEs or 0.3%. The percentage of SMEs in the services, construction, manufacturing, agricultural, mining, and quarrying industries is depicted in Figure 1.1 below.

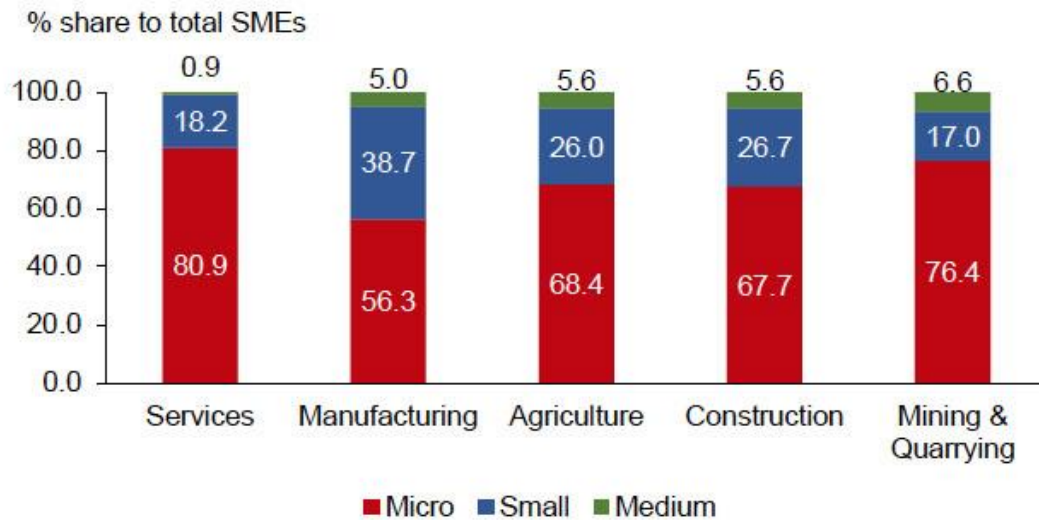


Source: SME Corporation Malaysia (2021)

Figure 1.1: Percentages of SMEs in Malaysia by 2020

1.1.2.2 Percentage of Total SMEs

Microenterprises in Malaysia accounted for 78.4% in 2020, which comprised 903,174 micro-enterprises (SME Corporation Malaysia, 2021). In the last few years, the SME industry in Malaysia has witnessed considerable growth. From 2015 to 2020, there was an increase of 209,504 micro-enterprises, with an annual growth rate of 5.4%. For instance, SMEs in the mining and quarrying industry exhibited the highest growth with 6.6%, followed by SMEs in agriculture (5.6%) and construction (5.6%) industries. Additionally, SMEs in the manufacturing industry grew by 5.0%, followed by the service industry (0.9%).



Source: SME Corporation Malaysia (2021)

Figure 1.2: Percentages of total SMEs by Industry

Topimin and Hashim (2021, p.8) stated that Malaysian enterprises are classified as micro, small, medium, and big. According to SME Corp (2017), 920,624 businesses existed in Malaysia in 2016. Of the total amount, 693,670 were microbusinesses, followed by 192,783 small businesses, 20,612 medium enterprises, and 13,559 big businesses. Therefore, micro and small enterprises in Malaysia account for $75.4\% + 20.9\% = 96.3\%$ of all firms in Malaysia. These figures suggest that almost all Malaysian businesses are SMEs, highlighting their importance to the country's economic growth.

Chuah and Thurusamry (2021) described that Malaysian SMEs are characterised by the number of workers or yearly sales volume. The authors defined SMEs as companies with less than five full-time workers or annual revenue of less than RM300,000. In addition, the authors defined SMEs as organisations with between five and 75 workers or an annual sales turnover between RM300,000 and RM15 million. The authors further classified small firms as organisations with between five and 30 workers or yearly revenues between RM300,000 and RM3 million. According

to SME Corp (2017), 89.2% of Malaysian SMEs specialise in the service business, notably wholesale and retail commerce, while the remaining 20.4% specialise in the food and beverage services business.

Topimin and Hashim (2021) stressed that SMEs in Malaysia have been crucial in creating employment possibilities for the public. SMEs offered 66.2% of job possibilities, increased the nation's production levels, contributed significantly to the nation's economic development, and increased the country's GDP from 37% to 38.3% from 2015 to 2018. Al Mamun et al. (2018, p. 1) estimated that the value created by SMEs in Malaysia would reach RM120 billion by 2020. In addition, SMEs represent a substantial source of revenue production (Rozmi et al., 2020, p. 208) and account for 65.3% of total employment (Al Mamun et al., 2018, p. 1). Hence, small and medium-sized businesses contribute considerably by producing jobs, enhancing living conditions, and raising a nation's GDP.

Her et al. (2020) highlighted that Malaysian SMEs account for 38.3% of the nation's GDP and 66% of job possibilities. Malaysian SMEs are essential to the nation's economy as its driving force (Her et al., 2020, p. 271). According to Mahidin (2020), the SMEs' GDP increased by 5.8% in 2019, amounting to RM586.9 billion. Moreover, the SME employment rate increased by 3% in 2019, indicating that SME employment has increased significantly from the previous fiscal year. In order to accomplish the Shared Prosperity Vision 2030, the government has focused on the expansion of SMEs (Allegra et al., 2015). Ijirshar et al. (2015) argued that the Malaysian government had implemented several efforts to stimulate the growth of SMEs because SMEs constitute the economy's backbone. For instance, the Malaysian government has begun to offer training programmes to enhance the sustainability and growth of SMEs.

According to Topimin and Hashim (2021), the majority of Malaysian businesses are SMEs. Despite their importance to the nation's economy, they are susceptible to and influenced by changes in the business climate. The authors also mentioned that the Malaysian government should utilise business coaching to assist Malaysian SMEs in achieving firm growth and increased performance to secure their survival. Mohamad et al. (2021) stated that the Malaysian government is discussing the efficiency of business programmes in promoting the growth and survival of SMEs.

1.1.3 SMEs Growth and Performance

Cicea et al. (2019) highlighted that SMEs' development and success might be characterised by their value creation. The rise in the value of assets inside an SME is a metric for measuring value addition. The authors noted that the growth and performance of SMEs may be assessed through production efficiency, productivity, revenue, market share, and costs. Arguably, the growth and performance of SMEs may be characterised by a gain in efficiency, production level, productivity, revenue, market share, and a decrease in operating expenses. Gopang et al. (2017) added that additional performance indicators for SMEs include target achievement, customer satisfaction, employee satisfaction, production quality, product diversification, reputation, marketing innovation, product innovation, profitability, client count, and organisational innovation. The authors also argued that SMEs might achieve development and success by employing organisational, human, and physical assets. Utilising these assets enables SMEs to attain outstanding performance. Intriguingly, other studies found that the internal environment, organisational strategy, and organisational features also impact SME success. An organisation's strategy should be distinctive and focused on attaining its goals and objectives.

In addition, SME development and performance are also influenced by social responsibility. Choongo (2017) asserted that social responsibility provides businesses with a competitive edge. The adoption of corporate social activities boosts the exposure of SMEs and enables firms to communicate with numerous stakeholders. For instance, communications with SME stakeholders increase customer loyalty and draw consumers. Customer retention supports growth, encouraging more customers to purchase the company's services and products. The purchase of a company's services and products raises revenue, hence supporting growth in revenue. A rise in a company's revenue enhances its earnings and profitability, fostering growth and performance. Peitsch (2020) identified the stages of SME development, including idea, development, launch, survival, growth, expansion, and scaling.

Idea. The idea refers to the thought of beginning a business. Entrepreneurs bore business ideas and envision the operation of the business. Entrepreneurs further research the intended business idea.

Development. In this stage, the entrepreneurs conduct market validation, ensuring that the intended business idea has an existing market. Furthermore, entrepreneurs ensure that the intended product or service solves a market problem. The proof of concept and prototyping are deployed at this stage. The proof of concept demonstrates the viability of a business idea by undertaking a pilot study. Thus, the pilot study is used to determine the feasibility of a project. Prototyping involves experimenting with the business idea in the actual market. Businesses utilise prototyping to capture the effect of the business idea on users.

Launch. After the development stage, businesses obtain feedback from consumers on the effectiveness of the desired product or service. The feedback allows