

DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft
ZBW – Leibniz Information Centre for Economics

Khar Kheng Yeoh

Article

Effect of serene business environment on the performance of small and medium enterprises in malaysia

Malaysian management journal

Provided in Cooperation with:

Universiti Utara Malaysia

Reference: Khar Kheng Yeoh (2023). Effect of serene business environment on the performance of small and medium enterprises in malaysia. In: Malaysian management journal 27 S. 59 - 82.
<https://e-journal.uum.edu.my/index.php/mmj/article/download/16179/3954/66370>.
doi:10.32890/mmj2023.27.3.

This Version is available at:

<http://hdl.handle.net/11159/654086>

Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.



<https://zbw.eu/econis-archiv/termsfuse>

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.



How to cite this article:

Yeoh, K. K. (2023). Effect of serene business environment on the performance of small and medium enterprises in Malaysia. *Malaysian Management Journal*, 27(July), 59-82. <https://doi.org/10.32890/mmj2023.27.3>

**EFFECT OF SERENE BUSINESS ENVIRONMENT ON
THE PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES IN MALAYSIA**

Khar Kheng Yeoh

School of Business Management, Universiti Utara Malaysia

kharkheng@uum.edu.my

Received: 1/6/2022 Revised: 28/7/2022 Accepted: 14/8/2022 Published: 27/7/2023

ABSTRACT

The effect of business environment on the performance of small and medium enterprises (SMEs) has been widely studied. Nevertheless, research on the effect of a serene business environment on the performance of SMEs is insufficient, notably in the context of Malaysia. Therefore, this study examined the effect of a serene business environment on SMEs' performance in Malaysia. Related literature was critically reviewed, and five hypotheses on the effect of serene business environmental factors on performance were formulated. By adopting the cross-sectional survey design, the data of 148 respondents were collected and analyzed using descriptive and inferential statistical tools – Statistical Package for Social Sciences (SPSS) and Partial Least Square – Structural Equation Modeling (PLS-SEM). From the empirical findings, Malaysia's serene business environment is critical in stimulating the performance of SMEs. Financial market environment, technological environment, and regulatory environment exerted a positive significant effect on SMEs' performance. Nonetheless, economic environment and competitive

environment indicated a strong, but negative significant effect on SMEs' performance. These findings proposed new insights in this field of research by providing relevant research implications and suitable recommendations to business managers and policymakers in Malaysia.

Keyword: Serene business environment, performance, SMEs, Malaysia.

INTRODUCTION

It is a fact that small and medium enterprises (SMEs) are the engine for economic growth (Sana et al., 2020), specifically for gross domestic product (GDP) growth, expansion of job opportunities, productive assets redistribution, and standard of living improvement in any nation (Sitharam & Hoque, 2016). Nonetheless, due to the nascent nature of SMEs, a high failure rate was reported globally (Fang et al., 2009) because of the inability to navigate successfully within the business environment (Takata, 2016). Commander and Svejnar (2011) noted business environments as often dynamic and complex, as several external environmental elements could exert a significant impact on the performance and profitability of SMEs. Many SMEs cannot achieve the desired level of performance in an environment that is characterized by a high level of environmental ambiguity (Chen et al., 2014), volatile and uncertain environment (Yayla & Hu, 2012), crime and corruption (Bah & Fang, 2015), economic and political instability (Meyer, 2019), lack of new technology/technology upgrade (Adeoye & Elegunde, 2012), and inadequate access to finances (Haron & Ibrahim, 2016). Therefore, enabling a serene business environment is fundamentally critical for SMEs' development (Meyer, 2019), as the external business environment is significant for firms seeking to survive, improve performance, and achieve high growth (Prajogo, 2016; Zhang et al., 2014).

Prior studies studied the effect of business environment on the performance of SMEs (Sitharam & Hoque, 2016; Eruemegbe, 2015; Chadee & Roxas, 2013; Mazanai & Fatoki, 2012), with greater focus on internal drivers, external environmental forces, long-term business objectives, and higher financial returns (Leonidou et al., 2015); marketing capabilities, industry forces (competitive rivalry and power of suppliers), and performance (Takata, 2016); and regulation, crime, corruption, infrastructure, output, and productivity of firms (Bah &

Fang, 2015). However, these studies neglected the effect of a serene business environment on the performance of SMEs in the Covid-19 era. Several scholars contended that the Covid-19 pandemic had created changes globally in the external environment and disrupted business operations and thus, resulting in a decline in productivity and performance levels, as well as the collapse of SMEs (Fu, 2020; WEO, 2020). In this study, a serene business environment is described as one with a favorable financial market, technological, economic, and competitive atmosphere, as well as a supportive regulatory framework for SMEs to freely operate and improve their performance level in the market scene. Therefore, the current research seeks to fill this gap. The present paper is structured as follows: introduction, literature review (business environment, Malaysia's serene business environment, performance, conceptual framework, and hypotheses development), methodology, analysis and findings, discussion, and implications.

LITERATURE REVIEW

Concept of Business Environment

The concept of business environment is diverse and lacks a universally acceptable definition because it is often described as the totality of the surroundings of an organization (Eruemegbe, 2015). All the influences, conditions, and circumstances are affecting and impacting the development of a firm as a whole (Harrison, 1996), as well as environmental dynamics, complexities, forces, and factors that affect business enterprises (Ola, 1993), or influences on an individual's organization (Oyebanji, 1994) under different circumstances of varying degrees (Aldrich, 1979). In the same manner, business environment is defined as factors both inside and outside the organization, influencing the perpetuity and successful existence of the organization (Sitharam & Hoque, 2016). Therefore, factors inside the business are known as internal environment, whereas factors outside the business are known as external environment. The firm must learn to simultaneously interact, adapt, transform, and leverage circumstances and phenomena to satisfy its needs for perpetual continuity (Atsegbua, 2002).

Malaysia's Serene Business Environment

Malaysia is one of the emerging economies of the world, located in Southeast Asia (Lee et al., 2020). The country is endowed with serene (favorable) business environment (Meyer, 2019), abundant natural

resources, and a plethora of business enterprises – both domestic and multi-national corporations, including micro, small, medium, and large businesses (Cheong et al., 2020). Therefore, the Malaysian government is committed to providing an enabling environment that supports enterprises through pro-business national policies. Hamdan et al. (2018) highlighted that many businesses in Malaysia had achieved diversification and growth both at the local and international market scenes, as the government had introduced many farsighted policies to support SMEs, in terms of technology transfer, industrial linkages, and access to finance to improve firms' competitiveness in the market. Among the policies are import substituting industrialization (ISI) and export-oriented industrialization (EOI), introduced between 1960 and 2000. The aim of the policies is to discourage the importation of goods and services, revamp the local economy (production), and encourage the exportation of Malaysia's goods. The Malaysian government also introduced the Look East Policy of 1980–2000 and Science and Technology Policy of 1980, which seek to improve work organization and management style, enhance transfer of soft technology and development of new knowledge-based industries, and commercialization of products. Furthermore, the government established the Industrial Master Plan (1980–2020), National Automotive Policy (2000 to date) and Offset Policy (1980–2014) to help SMEs sustain productivity, compete in the marketplace and achieve economic of scale through value-added activity, research and development, technology transfer, and increased industry linkage.

However, the emergence of the Covid-19 pandemic in Malaysia, like other countries, has adversely affected the business environment due to the lockdown and restriction of movement (Naradda Gamage et al., 2020). Thus, companies must transform themselves into the “new normal” and rely more on online presence, automation of production process, and new methods of delivering product or services to customers (Nadyan et al., 2021; Fu, 2020). Notwithstanding, Malaysia's business environment is regarded as serene. Despite the disruption of business activities, the country is able to preserve the financial market and general economic and political environment (Nadyan et al., 2021). Likewise, the government assists businesses in terms of fund, technology upgrade, adoption of latest technology, and efficient regulatory framework to improve productivity and firms' competitiveness (Lee et al., 2020; Hamdan et al., 2018). Therefore, the building blocks of Malaysia's serene business environment are: (1) financial market environment, (2) technological environment, (3) economic environment, (4) competitive environment, and (5) regulatory environment.

Financial Market Environment

Financial market environment relates to the supply and demand of finances (flow of finances) in the market environment on the one hand, and transactions between lenders and borrowers on the other hand (Makorere, 2014). Salikin et al. (2014) asserted that the decision to raise money (debt financing, equity financing, or retained earnings) and finance productive assets or expand capital base to achieve growth are the core responsibilities of business managers. Therefore, finances, internal or external, are critical to SMEs' growth, and a lack of finances can result in business failure (Haron & Ibrahim, 2016). The Malaysian government, through SME Corp, initiated various financial and infrastructural aids to SMEs in three key aspects (loans, credit, and equity participation; financial grants; and infrastructure and support services) to fully access, perform, and compete in the business environment (Cheong et al., 2020). Other financing options available for SMEs in Malaysia, specifically introduced for working capital and projects financing, are New Entrepreneur Fund 2 (NEF2), Soft Loan Scheme, and Fund for Small and Medium Industries 2 (FSMI2) (Cheong et al., 2020).

Likewise, the Malaysian government provides information management training, human capital development, and small debt resolution scheme for SMEs. In the short run, this will improve marketing efforts, product rollout, and sustain operation. Meanwhile, in the long run, it will generate enough profit (Brau et al., 2015). Hosamane and Alroaia (2009) noted that the purpose of government grants and various support programs is for the SMEs to improve production processes, absorb risks, minimize operational costs, and salvage precarious positions. The government has introduced grants and other loan packages to create a conducive business environment through increased access to external sources of finance, as that would insulate the SMEs in terms of capital structure, greater uptake of entrepreneurial activity, and reduction of revenue-expenses imbalance (Madrid-Guijarro et al., 2009; Berger & Udell, 2006). Therefore, financial market environment is conceptualized as the level of accessibility of internal and external finances by business enterprises.

Technological Environment

Technological environment encompasses the degree of adoption of new technology on the one hand, and the degree of technological advancement on the other hand (Lee et al., 2020). In the 4th Industrial

Revolution (IR 4.0) era, Malaysia has achieved a realistic level of technological sophistication, especially in the food processing, electronics, and automotive subsectors. Lee et al. (2020) explained that IR 4.0 is the era of smart factories as it features several technologies, such as the Internet of Things (IoTs), smart cars, big data, artificial intelligence (AI), and 3D printing to satisfy the order of an on-demand economy. Conversely, IR 3.0 and 2.0 symbolized the era of automation and mass production stage. Noting that a reasonable number of factories in Malaysia are still in the automation stage. It is suggested that a robust innovation system should be established to network various industry players, improve utilization of codified knowledge, and stimulate creativity and diffusion of processes. SMEs should display high readiness to accept the Science and Technology Policy as contained in the Industrial Master Plan by incorporating high-level technology through automation upgrades to further strengthen the business performance and competitiveness of firms (Hamdan et al., 2018). For instance, Penang Skill Development Center (PSDC) and Penang R&D Consortium (CREST) support SMEs in the areas of training, research and development, and industrial cooperation with universities and multinational corporations. Thus, technological environment is described as the level of adoption of new technology or a technological upgrade for SMEs to improve business performance in the marketplace (Eruemegbe, 2015).

Economic Environment

The general economic environment is conceptualized in terms of continuity of economic-political orientation, security of doing business, impact of social and business culture, legislation, economic and fiscal factors, and general prosperity, as well as dynamics of macroeconomics indicators (Dragnić, 2014). According to Meyer (2019), Malaysia has achieved economic growth for quite some decades, with inclusive and rapid GDP growth of 6.4 percent. With the 11th Malaysia Plan, the nation's economy has absorbed all external shocks (Koen et al., 2017) and become more open, modern, and diversified (Raza et al., 2018). Similarly, Lee et al. (2020) acknowledged that the Malaysian economy has developed from an economy that exports primary commodities or depends on agriculture to one that appropriates the multisector for growth. Therefore, the Malaysian government has implemented various economic policies that support job creation and technology transfer through establishing business enterprises (domestic and multinational corporations) and interfirm collaborations (Thiruchelvam et al., 2013). In addition,

Malaysia has implemented an industrial policy that assists indigenous businesses to operate and compete in capital-intensive and high-technology-demanding industries (Rasiah et al., 2017). Accordingly, Meyer (2019) established that the Malaysian economy has seen improvement in the general environment based on socio-economic development indexes, such as life expectancy (above 75 years), Happy Planet Index (46th), Global Competitiveness Index (23rd), Economic Freedom Index (22nd in the world), Political Stability Index (0.16 out of 2.5), Effective Governance Index (0.84 out of 2.5), and Global Corruption Control Index (47 out of 100). Therefore, the general economic environment is described as one with stable political and government system, as well as quality institutions and suitable policies and programs, to support SMEs performance improvement in the market scene (Sana et al., 2020; Meyer, 2019).

Competitive Environment

A competitive environment is an important driver of SMEs' performance, particularly in the age of globalization. SMEs struggle to improve technology and distinguish themselves to sustain productivity, increase market shares, and achieve a high-performance level in a highly competitive environment, where customer expectations and technology change frequently, and many companies offer similar products (Prajogo, 2016). According to Isa et al. (2015), Malaysia, through the third Industrial Malaysia Plan (IMP) and 10th Malaysia Plan (10MP), paved the way for the encouragement of SMEs to establish a foothold and gain competitive advantage both locally and internationally. Consequently, the Malaysian government has assisted SMEs in providing a responsive, competitive environment that seeks to adopt technology, reduce trade barriers and establish good business management practices for firms to build reputation and capabilities, expand operations, and achieve optimum performance (Meyer, 2019). It is suggested that competitive environment should provide a level playing field for SMEs to enjoy equal opportunities, and none should suffer undue disadvantages or enjoy undue privileges (Chadee & Roxas, 2013). Thus, competitive environment enables SMEs to demonstrate the "opportunistic behavior" in outperforming competitors in the marketplace (Deng & Low, 2014).

Leonidou et al. (2015) contended that competitive intensity is a reflection of a competitive environment, where market forces, such as the bargaining power of buyers or suppliers, ease of market entry, product substitutability, and competitive rivalry, are the most

important drivers of performance level among business enterprises. Likewise, Njagi and Kombo (2014) asserted that a highly competitive environment is often complex and dynamic, requires constant scanning to discover threats and opportunities in the general environment, and implements various strategies to outperform competitors. Therefore, competitive environment is described in terms of the degree of competitiveness or competitive intensity in the business environment.

Regulatory Environment

Regulatory environment is theorized in terms of regulatory quality, rule of law (Chadee & Roxas, 2013), and regulatory framework (Leonidou et al., 2015). Regulatory quality relates to the level at which firms comply with government regulatory procedures in doing business, licenses permit, existing rules and laws, and bureaucratic rigidities of government agencies. On the other hand, regulatory framework refers to regulatory forces and environment legislations that govern business activities. The government must reshape the business environment through the adoption of various legislations and laws (Marinova et al., 2012). Subsequently, the Malaysian government provides a sound regulatory environment through a framework that governs technology transfer, industrial linkages, and establishment and operations of businesses – micro, small, medium, large, and multinational enterprises (Hamdan et al., 2018). Accordingly, Chadee and Roxas (2013) emphasized that a sound regulatory environment is free of crime and corruption and, at the same time, upholds the rule of law principles. Therefore, the concept of regulatory environment in this study demonstrates the ability of business enterprises' management in dealing with or complying with relevant government regulations (Aterido, 2009).

Concept of SMEs' Performance

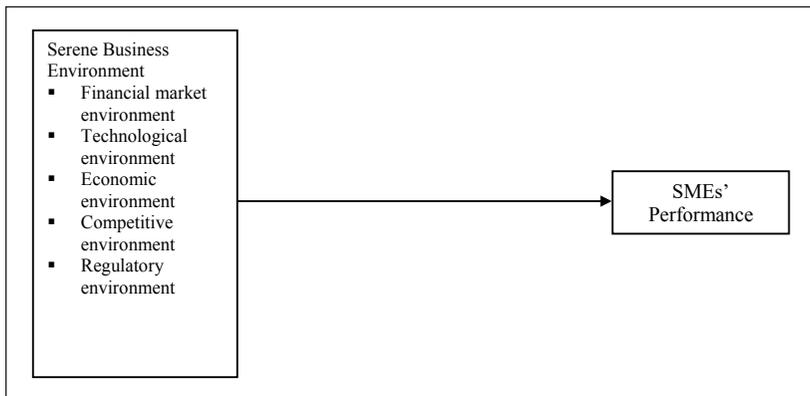
The literature showed that the concept of SMEs' performance is synonymous with organizational performance (Chen et al., 2014), business performance (Prajogo, 2016), and firm performance (Commander & Svejnar, 2011). Similarly, the term performance had undergone a revolutionary process. For example, Leonidou et al. (2015) defined performance as the final achievement of an organization that is measured using financial and non-financial indicators and contains elements, such as the existence of certain targets achieved, which has a period of time in achieving the targets, and the realization of efficiency and effectiveness. Likewise, Takata (2016) asserted that

performance is the ability of an enterprise to achieve such objectives as profitability (return on capital, high-profit margin, and increase in net profit), market effectiveness (increase in sales revenue and large market share), and market growth.

Therefore, performance is visualized to demonstrate how well an enterprise is doing in relation to other enterprises in the same industry, in terms of the level of capacity utilization (Chadee & Roxas, 2013); market performance and financial performance (Leonidou et al., 2015); sales growth and profitability (Prajogo, 2016); increase in sales, and achievement of corporate goals (Adeoye & Elegunde, 2012). Commander and Svejnar (2011) identified factors that could improve the performance of business organizations. Equally, Takata (2016) maintained that a business environment within which an enterprise operates could influence its overall performance. Therefore, serene business environmental factors are essential in the improvement of performance level (achievement of long-term objectives and higher financial returns).

Figure 1

Conceptual Framework



Conceptual Framework

The conceptual framework was based on the belief that a serene business environment enhances the performance of SMEs. In this framework, serene business environment is conceptualized in terms of financial market environment, technological environment, economic environment, competitive environment, and regulatory

environment, which were recognized as potential factors that enhance the performance of SMEs in the Malaysian context. Figure 1 shows that serene business environmental factors were the independent variables, while performance was the dependent variable.

Hypotheses Development

There has been a long tradition of support for the assumption that environmental factors influence the performance of SMEs (Leonidou et al., 2015). Similarly, several studies have established a relationship between different environmental factors and organizational performance (Chen et al., 2014), business performance (Prajogo, 2016), and firm performance (Commander & Svejnar, 2011). Consequently, Sitharam and Hoque (2016) posited that firms should monitor their external environment when considering the improvement of their performance level.

Financial Market Environment and Performance

The effect of different factors in the financial market environment on SMEs' performance has been widely studied. Cheong et al. (2020) showed that access to credit sources was important in boosting SMEs' performance. Equally, the study of Brau et al. (2015) found that government grant assistance was very effective in enhancing profitability and sustainability of SMEs both in the short and long terms. Banerjee and Duflo (2010) established that SMEs' growth was stimulated by easy access to finance. In addition, Chaudhuri et al., (2018) found that a strong positive causal effect existed between better access to finance and growth of SMEs. Nevertheless, De and Nagaraj (2014) established a positive relationship between better funding, productivity, and liquidity of SMEs. Moreover, Haron and Ibrahim (2016) upheld that Islamic financing schemes were critical for the growth, development, and competitiveness of SMEs. Therefore, the current study hypothesized that:

H₁: Financial market environment exerts a significant effect on SMEs' performance in Malaysia.

Technological Environment and Performance

Prior studies have investigated the relationship between technological environment and performance of SMEs. Hamdan et al. (2018) found that effective technology transfer was important in supporting SMEs'

growth and performance. Similarly, Sitharam and Hoque (2016) established that technological advancement was critical in promoting the performance of SMEs. Eruemegbe (2015) established that technological equipment exerted great influence on organizational performance. Likewise, Chen et al. (2014) reported that information technology adoption could enhance the organizational performance of SMEs. In addition, Adeoye and Elegunde (2012) showed that technological factor exerted a great impact on performance of SMEs. Yayla and Hu's (2012) information technology alignment had a statistically strong influence on the performance of SMEs. Therefore, the study hypothesized that:

H₂: Technological environment exerts a significant effect on SMEs' performance in Malaysia.

Economic Environment and Performance

The relationship between general economic environment and SMEs' performance has been investigated in the literature. For example, Dragnić (2014) reported that the performance of SMEs, which was measured in relation to sales growth and goals achievement, was significantly influenced by the general state of the economy. Similarly, Adeoye and Elegunde (2012) found that economic, political, and socio-cultural factors influenced the performance of SMEs, which was measured in terms of achievement of profitability and corporate goals, increase in sales, and effectiveness and efficiency. In addition, Meyer (2019) contended that certainty of economic policies and political stability or freedom were key factors that determined both the investment and growth of business enterprises. Therefore, the study hypothesized that:

H₃: Economic environment exerts a significant effect on SMEs' performance in Malaysia.

Competitive Environment and Performance

Several scholarly works have found a relationship between competitive environment and SMEs' performance in different contexts. For instance, Prajogo (2016) showed that environmental competitiveness was key in facilitating SMEs' performance. Equally, Leonidou et al. (2015) reported that highly competitive intensity affected the performance of SMEs. Takata (2016) established that competitive forces of an industry, such as power of suppliers and

competitive rivalry, were major factors that drove the performance of SMEs, followed by pricing and new product development. Moreover, Isa et al. (2015) found that competitive market factors were important determiners of SMEs' performance in Malaysia. Chen et al. (2014) discovered that the performance level of SMEs was strengthened by competitive environmental complexities. Therefore, the study hypothesized that:

H₄: Competitive environment exerts a significant effect on SMEs' performance in Malaysia.

Regulatory Environment and Performance

Previous studies showed that regulatory environment is critical in boosting the performance of SMEs. For example, Leonidou et al. (2015) stated that deep public concern and regulatory intensity affected the performance of SMEs. Again, Chadee and Roxas (2013) highlighted that both rule of law and regulatory quality might have a direct impact on firm performance. Cheong et al. (2020) found that tax rules were important in boosting SMEs' performance. Meyer (2019) maintained that both property rights protection and law and order were significant factors that influenced investment and growth among business enterprises. Furthermore, Bah and Fang (2015) established that environmental regulations had a direct linkage with productivity and output of firms in Africa. Therefore, the study hypothesized that:

H₅: Regulatory environment exerts a significant effect on SMEs' performance in Malaysia.

METHODOLOGY

This research was quantitative and cross-sectional, relying on the analysis and interpretation of outcomes at a point in time. Based on the research objectives, a questionnaire was designed to obtain personal information of owners/managers of SMEs, as well as the data of research variables using nominal, ordinal, and Likert scales. A total of 2,358 SMEs in Penang, Malaysia, were the population of this study (Haron & Ibrahim, 2016), which accounted for a sample size of 331 as computed by Krejcie and Morgan (1970). Accordingly, prior instruments were adopted to measure the research variables. Four items that measured the dependent variable – performance – were adopted from Chen et al. (2014). On the other hand, items that

measured the independent variables were adopted as follows: two items for financial market environment adopted from Cheong et al. (2020); four items for technological environment adopted from Aziz and Yassin (2010); five items for economic environment adopted from Meyer (2019); and four items for competitive environment and six items for regulatory environment adopted from Leonidou et al. (2015). The data were analyzed by employing Statistical Package for Social Sciences (SPSS) and Partial Least Square – Structural Equation Modeling (PLS-SEM).

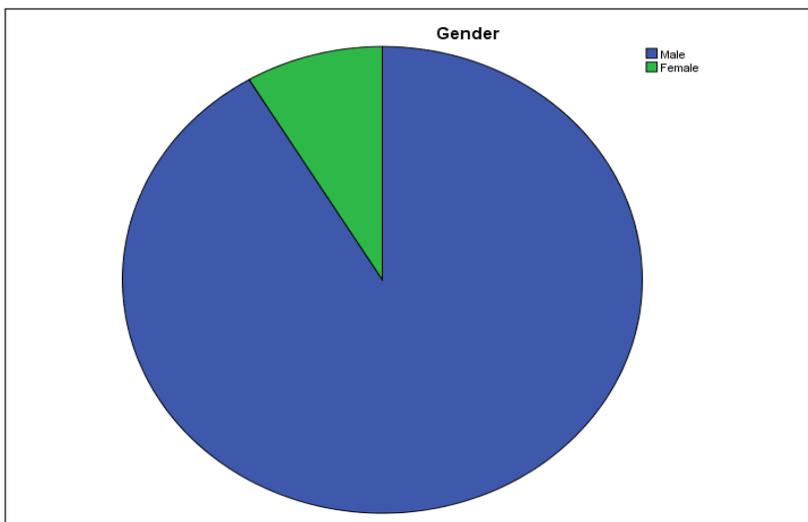
Data Analysis and Findings

Response Rate

In this study, 331 questionnaires were distributed to the owners and managers of SMEs in Penang, Malaysia. Nevertheless, the study managed to retrieve 147 questionnaires from the respondents. A total of 184 respondents did not return the questionnaires. Additionally, in the preliminary analysis, seven questionnaires were observed as outliers and, therefore, removed from further analysis, accounting for a response rate of 42.29 percent.

Figure 2

Age Profile of Respondents

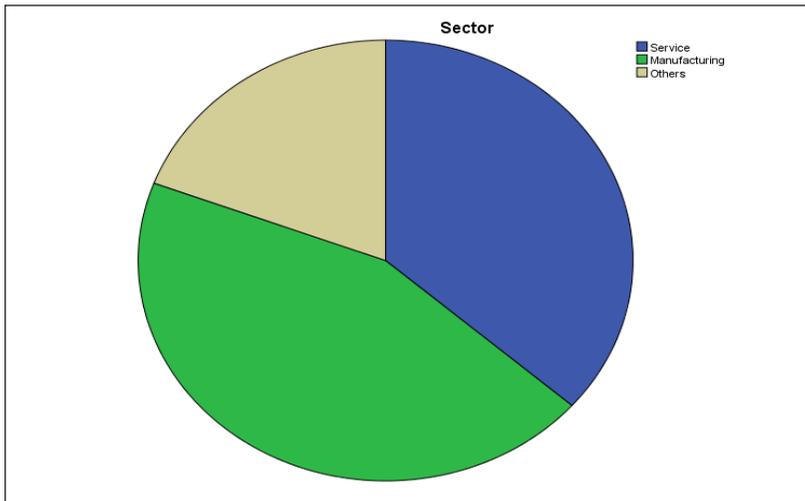


Descriptive Statistics

The result of the descriptive statistics is shown in Figures 2, 3, and 4. The age profile of the respondents, in Figure 2, showed that 128 out of the 140 owners/managers of SMEs were male (91.4%). On the other hand, 12 respondents were female (8.6%).

Figure 3

SMEs' Sector



Furthermore, in terms of the sector of business operation, Figure 3 exhibited that the majority (44.3%) of the SME owners/managers (62 respondents) operated in the manufacturing sector. Meanwhile, the second largest sector with 51 respondents, accounting for 36.4 percent of the total respondents, was the service sector. Whereas 27 SME owners/managers, i.e., 19.3 percent of the total number of respondents, operated in other sectors (agriculture, food and beverage, or mining).

In terms of the duration of business operation, Figure 4 illustrated that most of the SME owners and managers (64 respondents, i.e., 45.7%) had been in business for the past five years. On the other hand, 56 respondents (40%) had been in business for the past ten years. Yet, Figure 4 demonstrated that 20 owners and managers of SMEs (14.3%) had operated for more than ten years.

Figure 4

Years of Operation

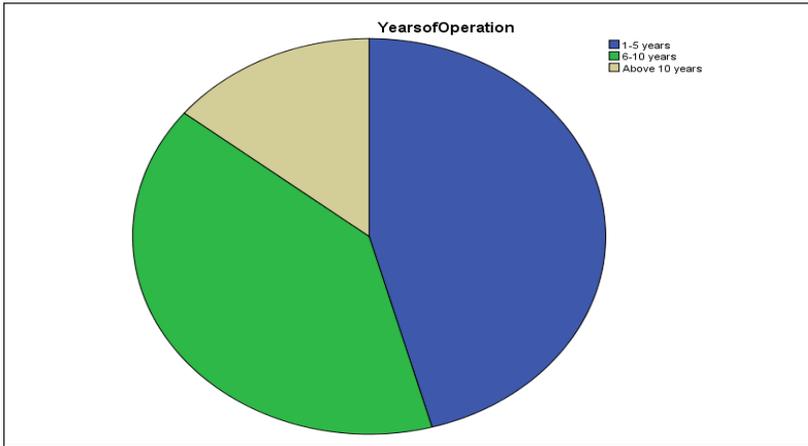
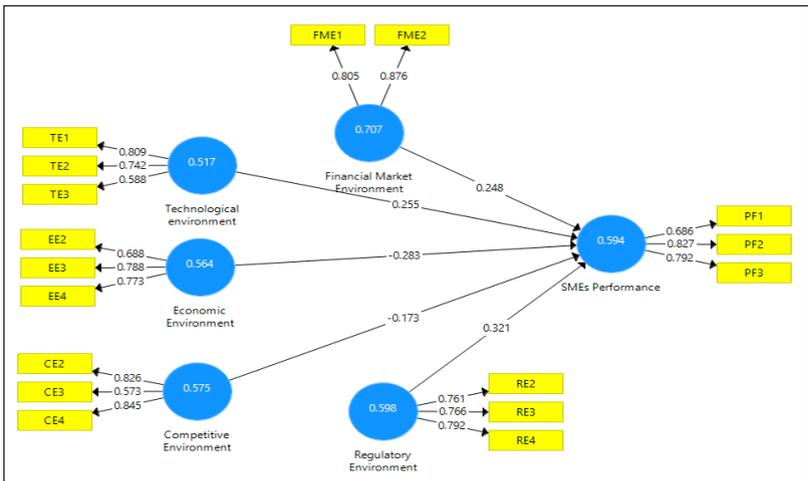


Figure 5

Measurement Model Assessment



Assessment of Measurement Model

The measurement model assessment is presented in Figure 5. In the assessment, Hair et al.'s (2014) PLS-SEM technique of assessment

was followed. According to the outcome, all variables in this study had adequate reliability and validity levels. However, the average variance extract (AVE) was achieved after the deletion of one item among the four items that measured performance, one item among the four items that measured technological environment, two items among the five items that measured economic environment, one item among the four items that measured competitive environment, and three items among the six items that measured regulatory environment. Surprisingly, not a single item was deleted among the two items that measured the financial market environment, as it had the highest AVE.

Similarly, Table 1 showed that the composite reliability value for all the constructs was satisfactory and ranged from 0.760 to 0.826. Likewise, all the constructs had a satisfactory value of AVE of 0.5, ranging from 0.517 to 0.707. Therefore, both reliability coefficient and AVE values were above the recommended threshold. Furthermore, in establishing the discriminant validity of instruments, the Fornell-Larcker criterion in Table 2 was established to be adequate and acceptable. Each of the latent variables had a strong loading (both in rows and columns) in its own construct, suggesting no multicollinearity problem among the variables.

Table 1

Reliability and Validity of Instruments

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Competitive Environment	0.647	0.798	0.575
Economic Environment	0.628	0.794	0.564
Financial Market Environment	0.590	0.828	0.707
Regulatory Environment	0.664	0.817	0.598
SMEs' Performance	0.658	0.814	0.594
Technological Environment	0.549	0.760	0.517

Assessment of Structural Model

This study utilized PLS-SEM in establishing a causal relationship between the research variables. According to Hair et al. (2012), PLS-

SEM is a contemporary statistical tool that is more robust than other covariance-based techniques, such as AMOS and SPSS. Similarly, Bagozzi and Yi (2012) acknowledged that PLS-SEM is better at testing causal relationships for its high estimation power, even when non-complex models are involved. According to the outcome in Table 3, 52.9 percent of the variance in performance were explained by financial market environment, technological environment, economic environment, competitive environment, and regulatory environment.

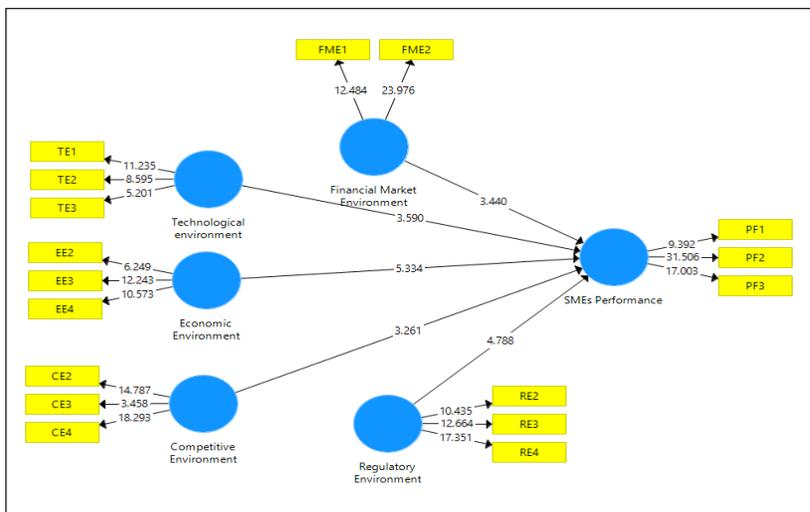
Table 2

Fornell-Larcker Criterion

	1	2	3	4	5	6
Competitive Environment	0.758					
Economic Environment	0.166	0.751				
Financial Market Environment	-0.225	-0.072	0.841			
Regulatory Environment	-0.002	-0.088	0.200	0.773		
SMEs' Performance	-0.304	-0.371	0.500	0.419	0.771	
Technological Environment	-0.111	-0.052	0.504	0.092	0.444	0.719

Figure 6

Structural Model Assessment



Moreover, the result in Figure 6 showed that financial market environment ($B=0.248$, $t\text{-value}=3.440$, $p\text{-value}=0.00$), technological environment ($B = 0.255$, $t\text{-value} = 3.590$, $p\text{-value} = 0.00$), and regulatory environment ($B = 0.321$, $t\text{-value} = 4.788$, $p\text{-value} = 0.00$) had a strong positive causal effect on the performance of SMEs in Malaysia.

On the other hand, the result further presented that competitive environment ($B = -0.173$, $t\text{-value} = 3.261$, $p\text{-value} = 0.00$) and economic environment ($B = -0.283$, $t\text{-value} = 5.334$, $p\text{-value} = 0.00$) had a strong negative causal effect on SMEs' performance in Malaysia. Therefore, H_1 , H_2 , H_3 , H_4 , and H_5 were supported at less than the 0.01 significance level. Statistically, the effect of financial market environment, technological environment, economic environment, competitive environment, and regulatory environment on SMEs' performance in Malaysia was established.

Table 3

Path Coefficients, Effect Size, and Coefficient of Determination

	Beta	Standardized Beta	t-values	p-values	f-square	R-square
Competitive Environment → SMEs' Performance	-0.173	0.053	3.261	0.001	0.059	0.529
Economic Environment → SMEs' Performance	-0.283	0.053	5.334	0.000	0.164	
Financial Market Environment → SMEs' Performance	0.248	0.072	3.440	0.000	0.090	
Regulatory Environment → SMEs' Performance	0.321	0.067	4.788	0.000	0.208	
Technological Environment → SMEs' Performance	0.255	0.071	3.590	0.000	0.103	

Table 3 illustrated that the causal effect of regulatory environment on SMEs' performance and economic environment on SMEs' performance was highly substantial with f-square values of 0.208 and 0.164. Meanwhile, the causal effect of technological environment on SMEs' performance was moderate, with an f-square value of 0.103. Nevertheless, the result showed that both causal effects of financial market environment and competitive environment on SMEs' performance were minor, with f-square values of 0.090 and 0.059.

DISCUSSION AND CONCLUSIONS

This research examined the effect of a serene business environment on SMEs' performance in Malaysia. This research is one of the few that investigated the effect of financial market environment, technological environment, economic environment, competitive environment, and regulatory environment on the performance of SMEs. In establishing the causal effect of serene business environment on SMEs' performance in Malaysia, the study presumed that financial market environment, technological environment, economic environment, competitive environment, and regulatory environment exerted significant effects on SMEs' performance. From the research outcome, financial market environment had a significant effect on SMEs' performance. Similarly, technological environment was found to have a significant effect on SMEs' performance. Moreover, it was established that economic environment, competitive environment, and regulatory environment significantly affected SMEs' performance. Interestingly, the current findings corroborated prior research that established the effect of financial market environment (Cheong et al., 2020; Chaudhuri et al., 2018; Brau et al., 2015), technological environment (Hamdan et al., 2018; Sitharam & Hoque, 2016), economic environment (Meyer, 2019; Dragnić, 2014; Adeoye & Elegunde, 2012), competitive environment (Prajogo, 2016; Mat Isa et al., 2015), and regulatory environment (Meyer, 2019; Leonidou et al., 2015) on the performance of SMEs (measured in terms of liquidity, productivity, growth, and profitability).

The current findings implied that a serene business environment is very crucial for the performance of SMEs. The results suggested that accessibility to (external and internal) funds to finance future growth/investment, accessibility to (new or upgraded) technology to improve production process/service delivery and sound regulatory framework are important for SMEs seeking opportunities to increase customer satisfaction/ customer base, market share, sales, and profitability level. On the other hand, the negative relationship of economic and competitive environments on performance implied that not every economic policy is important for SMEs and can stimulate growth. Equally, certain activities of competitors might be detrimental to the survival and growth of other enterprises, especially in an industry with a high level of competitive rivalry. Accordingly, it is recommended that managers of SMEs fully appreciate the business environment

as a mechanism to boost their performance level (increase in customer base, market share, sales, and profit margin). Similarly, it is recommended that the Malaysian government through relevant agencies should continue to create and sustain a serene business environment by supporting the SMEs in terms of funding, acquisition of latest technology, good policies and programs, and regulatory framework, as a prerequisite for SMEs to increase productivity and achieve corporate objectives.

ACKNOWLEDGMENT

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

REFERENCES

- Adeoye, A. O., & Elegunde, A. F. (2012). Impacts of external business environment on organizational performance in the food and beverage industry in Nigeria. *British Journal of Arts and Social Sciences*, 6(2), 194–201.
- Aldrich, H. (1979). *Fundamental as moderate of job satisfaction*. Random House Incorporation.
- Aterido, R., Hallward-Driemeier, M., & Pagés, C. (2009). *Big constraints to small firms' growth? Business Environment and employment growth across firms* (The World Bank Policy Research Working Paper no. 5032).
- Atsegbua, K. (2002). *Changing organization: Essays on the development and evolution of human organization*. McGraw-Hill.
- Aziz, N. A., & Yassin, N. M. (2010). How will market orientation and external environment influence the performance among SMEs in the agro-food sector in Malaysia? *International Business Research*, 3(3), 154–164.
- Bagozzi, R., & Yi, Y. (1988). On the evaluation of structural equation models. *Journal of the Academy of Marketing Science*, 16, 74–94. <https://doi.org/10.1007/bf02723327>
- Bah, E. H., & Fang, L. (2015). Impact of the business environment on output and productivity in Africa. *Journal of Development Economics*, 114, 159–171.
- Banerjee, A. V., & Duflo, E. (2010). Giving credit where it is due. *The Journal of Economic Perspectives*, 24(3), 61–80. <https://doi.org/10.1257/jep.24.3.61>

- Berger, A. N., & Udell, G. F. (2006). A more complete conceptual framework for SME finance. *Journal of Banking and Finance*, 30(11), 2945–2966.
- Brau, J. C., Cardell, S. N., & Woodworth, W. P. (2015). Does microfinance fill the funding gap for microentrepreneurs? A conceptual analysis of entrepreneurship seeding in impoverished nations. *International Business Research*, 8(5), 30.
- Chadee, D., & Roxas, B. (2013). Institutional environment, innovation capacity and firm performance in Russia. *Critical Perspectives on International Business*, 9(1/2), 19–39.
- Chaudhuri, A., Boer, H., & Taran, Y. (2018). Supply chain integration, risk management and manufacturing flexibility. *International Journal of Operations and Production Management*, 38(3), 690–712.
- Chen, Y., Wang, Y., Nevo, S., Jin, J., Wang, L., & Chow, W. S. (2014). IT capability and organizational performance: The roles of business process agility and environmental factors. *European Journal of Information Systems*, 23(3), 326–342.
- Cheong, C. W., Lee, M. H., & Weissmann, M. A. (2020). Credit access, tax structure and the performance of Malaysian manufacturing SMEs. *International Journal of Managerial Finance*, 16(4), 433–454.
- Commander, S., & Svejnar, J. (2011). Business environment, exports, ownership, and firm performance. *The Review of Economics and Statistics*, 93(1), 309–337.
- De, P. K., & Nagaraj, P. (2014). Productivity and firm size in India. *Small Business Economics*, 42(4), 891–907.
- Deng, X., & Low, S. P. (2014). Exploring critical variables that affect political risk level in international construction projects: Case study from Chinese contractors. *Journal of Professional Issues in Engineering Education and Practice*, 2(1), 1–11.
- Dragnić, D. (2014). Impact of internal and external factors on the performance of fast-growing small and medium businesses. *Management Journal of Contemporary Management Issues*, 19(1), 119–159.
- Eruemegbe, G. O. (2015). Impact of business environment on organization performance in Nigeria a study of union bank of Nigeria. *European Scientific Journal*. E-print. <https://core.ac.uk/download/pdf/236409557.pdf>
- Fang, N., Yuli, Z., & Hongzhi, X. (2009). Acquisition of resources, formal organization and entrepreneurial orientation of new ventures, *Journal of Chinese Entrepreneurship*, 1(1), 40–52.

- Fu, X. (2020, December). Research on the survival strategy of SMEs under Covid-19 – Based on the perspective of organizational resilience. In *Fifth International Conference on Economic and Business Management (FEBM 2020)* (pp. 603–606). Atlantis Press.
- Hair, J. F., Sarstedt, M., Ringle, C. M., & Mena, J. A. (2012). An assessment of the use of partial least squares structural equation modeling in marketing research. *Journal of the Academy of Marketing Science*, 40(3), 414–433.
- Hamdan, A. R., Fathi, M. S., & Mohamed, Z. (2018). Evolution of Malaysia's technology transfer model facilitated by national policies. *International Journal of Engineering & Technology*, 7(2.29), 196–202. http://eprints.utm.my/id/eprint/79869/1/AbdulRahmanHamdan2018_EvolutionofMalaysiatechnologytransfer.pdf
- Haron, R., & Ibrahim, K. (2016). Islamic financing in mitigating access to financing problems of SMEs in Malaysia: A survey analysis. *Intellectual Discourse*, 24(Special Issues). <https://journals.iium.edu.my/intdiscourse/index.php/id/article/view/926>
- Harrison, F. (1996). *Policy, strategic and managerial action*. Houghton Mifflin.
- Hosamane, M. D., & Alroaia, Y. V. (2009). Entrepreneurship and development of small-scale industries in Iran: Strategic management tools and business performance assessment. *The IUP Journal of Entrepreneurship Development*, 6(1), 27.
- Isa, C. M. M., Saman, H. M., & Preece, C. N. (2015). Determining significant factors influencing Malaysian construction business performance in international markets. *Journal of Construction in Developing Countries*, 20(2), 1.
- Koen, V., Asada, H., Nixon, S., Rahuman, M. R. H., & Mohd Arif, A. Z. (2017). *Malaysia's economic success story and challenges* (OECD Economics Department Working Papers, No. 1369, OECD Publishing, Paris). <http://dx.doi.org/10.1787/cf7fddf2-en>.
- Krejcie, R. V., & Morgan, D. W. (1970). Determining sample size for research activities. *Educational and Psychological Measurement*, 30(3), 607–610.
- Lee, K., Wong, C. Y., Intarakumnerd, P., & Limapornvanich, C. (2020). Is the fourth industrial revolution a window of opportunity for upgrading or reinforcing the middle-income trap? Asian model of development in Southeast Asia. *Journal of Economic Policy Reform*, 23(4), 408–425.

- Leonidou, L. C., Christodoulides, P., Kyrgidou, L. P., & Palihawadana, D. (2015). Internal drivers and performance consequences of small firm green business strategy: The moderating role of external forces. *Journal of Business Ethics*, 140, 585–606.
- Madrid-Guijarro, A., Garcia, D., & Van Auken, H. (2009). Barriers to innovation among Spanish manufacturing SMEs. *Journal of Small Business Management*, 47(4), 465–488.
- Makorere, R. (2014). The role of microfinance in promoting small and medium enterprises (SMEs) in Tanzania: Empirical evidence from SMEs holder who have received microcredit from financial institutions in Morogoro, Tanzania. *Global Business and Economics Research Journal*, 3(4).
- Marinova, S., Child, J., & Marinov, M. (2012). Institutional field of outward foreign direct investment: A theoretical extension? In Tihanyi, L., Devinney, T., Pedersen, T. (Eds.), *Institutional Theory in International Business and Management, in Advances in International Management*, 25, 233–261. Emerald Group Publishing.
- Mazanai, M., & Fatoki, O. (2012). Access to finance in the SME sector: A South African perspective. *Asian Journal of Business Management*, 4(1), 58–67.
- Meyer, D. F. (2019). An analysis of the causal relationships between economic development, good governance and political stability in Malaysia. *International Journal of Innovation, Creativity, and Change*, 5(2), 639–657.
- Nadyan, A. F., Selvia, E., & Fauzan, S. (2021). The survival strategies of micro, small and medium enterprises in the new normal era. *Dinamika Ekonomi*, 12(2), 142–149.
- Naradda Gamage, S. K., Ekanayake, E. M. S., Abeyrathne, G. A. K. N. J., Prasanna, R. P. I. R., Jayasundara, J. M. S. B., & Rajapakshe, P. S. K. (2020). A review of global challenges and survival strategies of small and medium enterprises (SMEs). *Economies*, 8(4), 79.
- Njagi, L., & Kombo, H. (2014). Effect of strategy implementation on performance of commercial banks in Kenya. *European Journal of Business and Management*, 6(13), 62–67.
- Ola, C. (1993). *Nigerian business environment*. Abiola Bookshop.
- Oyebanji, J. (1994). *Nigerian business environment and organization effectiveness*. Abiola Bookshop.
- Prajogo, D. I. (2016). The strategic fit between innovation strategies and business environment in delivering business performance. *International Journal of Production Economics*, 171, 241–249.

- Rasiah, R., Shan, Y. X., & Salih, K. (2017). Sub-national governments and technological upgrading in the integrated circuit cluster in Northern Malaysia. *Innovation and Development*, 7(2), 287–307. <https://doi.org/10.1080/2157930X.2016.1261760>
- Raza, H., Mohiuddin, Z. A., Zaidi, S. S. Z., & Osama, A. (2018). CPEC: Pakistan-China cordial ties - A boost to Pakistan's economy. *Journal of Accounting, Business and Finance Research*, 2(1), 1–6.
- Salikin, N., Ab Wahab, N., & Muhammad, I. (2014). Strengths and weaknesses among Malaysian SMEs: Financial management perspectives. *Procedia-Social and Behavioral Sciences*, 129, 334–340.
- Sana, A. K., Poddar, S., & Paul, B. (2020). Contribution of small and medium enterprises (SMEs) towards Malaysian economic growth: An empirical study. *International Journal on Recent Trends in Business and Tourism (IJRTBT)*, 4(2), 18–27.
- Sitharam, S., & Hoque, M. (2016). Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. *Problems and Perspectives in Management*, 14(2), 277–288.
- Takata, H. (2016). Effects of industry forces, market orientation, and marketing capabilities on business performance: An empirical analysis of Japanese manufacturers from 2009 to 2011. *Journal of Business Research*, 69(12), 5611–5619.
- Thiruchelvam, K., Ng, B. K., & Wong, C. Y. (2013). An overview of Malaysia's national innovation system. In A. Ratanawaraha, P. A. Chairatana, & W. W. Ellis (Eds.), *Innovation systems in Southeast Asia* (pp. 53–88). Chulalongkorn University Press.
- WEO. (2020). *World economic outlook*. International Monetary Fund.
- Yayla, A. A., & Hu, Q. (2012). The impact of IT-business strategic alignment on firm performance in a developing country setting: Exploring moderating roles of environmental uncertainty and strategic orientation. *European Journal of Information Systems*, 21(4), 373–387.
- Zhang, S. S., van Doorn, J., & Leeflang, P. S. (2014). Does the importance of value, brand and relationship equity for customer loyalty differ between Eastern and Western cultures? *International Business Review*, 23(1), 284–292.