



Business Excellence Model for the Business Performance of Small and Medium Enterprises in Malaysia



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ABSTRACT

Objective - Small and Medium Enterprises (S.M.E.s), including Malaysia, have been recognized as a critical economic development engine globally. S.M.E.s' economic contribution includes their share of total establishments, employment, Gross Domestic Product (G.D.P.), and total export.

Methodology/Technique – S.M.E.s comprise 97.4 percent of business establishments, provide 59 percent of total employment, and are the major contributor to economic growth. Although S.M.E.s play a pivotal role in economic development due to their significant proportion, their business performance remains a topic of debate. The S.M.E.s' business performance has shown slow growth while recording low productivity compared to large firms. This paper aims to develop a comprehensive Business Excellent Model (B.E.M.) that is exclusively and mutually for the business performance of S.M.E.s by investigating each criterion of the Business Excellent Model.

Finding – The B.E.M. was developed by reviewing the literature on the issue from local and global contexts. Previous studies have shown that S.M.E.s require a suitable B.E.M. to catalyze their business performance. The S.M.E.s need to have seven criteria which comprise (a) leadership, (b) strategy, (c) information, (d) customer, (e) workforce, (f) process, and (g) results that are exclusively and mutually for S.M.E.s' business performance.

Novelty – Finally, the literature's conclusion helps evaluate the critical issues of slow-growing and unproductive S.M.E.s in Malaysia. Furthermore, understanding every criterion of the B.E.M. would also ascertain which measures should be included in the B.E.M. for S.M.E.s.

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J.E.L. Classification: M10, M11.

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1. Introduction

This research investigates the relationship between business performance and specific factors, such as B.E.M. criteria and the underpinning theory, which are the study's contextual and theoretical frameworks.

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The literature review commences with ideas about B.E.M. usage, understanding, and acceptance, as well as concerns about business excellence and their correlation to the underpinning theory, the Resource-Based View (R.B.V.), before moving on to various definitions of business performance provided by preceding scholars in the S.M.E.s' context. There are multiple drives for this study's attention. Primarily, the study examined the criteria of B.E.M. that are seemingly fit for S.M.E.s and the business excellence coaching to assist them. The primary significance of the present study is to provide additional information about the variables and aspects that could influence the utilization of B.E.M. in Malaysia. Additionally, the findings of this research are critical to differentiate between S.M.E. entrepreneurs with plenty of experience, knowledge, and skills and those needing more training, guidance, support, and platform sharing.

Even though many measures have been initiated to increase business and economic productivity, Malaysia lags behind many high-income countries. To cite an example, in 2013, the labor productivity level in Malaysia only achieved 32% and 56% of the developed countries of United States and South Korea, respectively (Malaysia, 2020). The productivity growth of SMEs in Malaysia decreased to -6.6% in 2014, compared to 3.2% in 2011 (Palanimally et al., 2020). The productivity level of SMEs in the services sector in Malaysia was lower, with an average of RM47,699 per worker. Nonetheless, in Malaysia, S.M.E.s' performance has shown minimal and slow growth (Azmi, 2020). Also, employment creation from S.M.E.s to total employment every year is marginal, with a yearly increment of only 0.73% (HRDF, 2019). S.M.E.s in Malaysia have low productivity than large firms, with a productivity gap of 3.3 times lower than that of large firms (Mahmod et al., 2018). As evaluated by actual G.D.P. per employee, Malaysia's S.M.E. labor efficiency is substantially behind that of Singapore, Japan, Korea, and European and American nations (Harif & Hoe, 2018).

This section aims to give an overview of the paper and assist viewers in understanding this paper's organization. The paper starts with the introductory paragraph; then, it will be followed by a literature review. After that, a section on research methodology is presented. Finally, the study's discussion and conclusion are addressed in the paper.

2. Literature Review

This research investigates the relationship between business performance and certain factors like B.E.M. criteria and the underpinning theory, performed as the study's contextual and theoretical framework. The literature review commences with ideas about B.E.M. usage, understanding, and acceptance, as well as concerns in business excellence and their correlation to the underpinning theory, the Resource-Based View (R.B.V.), before moving on to various definitions of business performance provided by preceding scholars in the S.M.E.s' context. Finally, the outcomes of previous research on the association between business performance and the amount of B.E.M. were evaluated and given to corroborate the existing research findings (Ershadi & Eskandari Dehdazzi, 2019).

This study discusses the relationship between each criterion of B.E.M. This includes leadership criterion, strategy criterion, information criterion, customers criterion, workforce criterion, process criterion, and results criterion, with R.B.V. (Kumar Basak et al., 2018) (Widiyatmoko, 2018).

2.1 Business Performance

Business performance refers to a company's capacity to adjust to changes in the business environment, including consumers, competitors, and other powerful forces that might affect how business is conducted (Rekarti & Doktoralina, 2017). It is frequently linked to a company's capacity to innovate and achieve its objectives. Furthermore, short- and long-term business performance is linked to organizational performance in both financial and non-financial performance (Budiarto & Pramudiati, 2018).

2.2 Business Excellence Model

Employee dedication to delivering outcomes without rework, readiness to bear responsibility, continual learning, growth, and simplicity in whatever they do are all examples of excellence (Zdrilić & Dulčić, 2016). According to (Domun, 2016), "Excellence" (whether organizational or business excellence) is described as "outstanding practice in managing the organization and achieving results, all based on the fundamental concepts", and its framework will lead the company to success.

Top managers, engineers, and floor employees benefit from the Business Excellence Model's (B.E.M.) use of statistical approaches for monitoring and optimizing industrial processes (Domun & Talwar, 2016). Thus, it offers an overall framework, serves as a reference/means of growth, and contributes to an organization's culture of continuous development (Price et al., 2018). B.E.M. will now give organizational growth, recognition (with an emphasis on winning an award), and research/development (with a focus on creating new insights or building new integrative solutions) (Carvalho et al., 2018). Therefore, this current study proposed criteria of B.E.M. that are exclusively and mutually for S.M.E.s in Malaysia, comprising seven focus areas: leadership, information, customers, workforce, process, and results.

2.2.1 Leadership Criterion

Leadership criterion is significantly related to business excellence (Lasrado & Kassem, 2021). As firm owners, the capacity of S.M.E.s to develop business goals, evaluate and implement strategies, and have the abilities and skills to look at a broader and longer perspective is described as a leadership criterion in this research.

Quality excellence, increased service quality, and enhanced organizational performance may all be achieved using leadership criteria (Lasrado & Uzbek, 2017). Furthermore, the study's participants show a proclivity for stressing operation focus criterion, followed by leadership. As a result, the participants ranked the operation focus criterion and leadership criterion as the two most important aspects of the organization (binti Masrom & bin Daut, 2017). S.M.E. leaders are characterized by leadership criteria that are favourably connected to human capital; these include mentoring and coaching, moving followers away from their self-interest by providing support, intellectual stimulation (being open to new ideas) and individual consideration behaviours, inspirational motivation, charismatic influence (serving as a good work model) (Pasamar et al., 2019). Thus, human capital directly contributes to S.M.E.'s success (Hameed et al., 2020).

2.2.2 Strategy Criterion

The strategy criterion concerns diligent S.M.E.s having a restless attitude towards their business, which encourages firms to develop effective methods for changing situations (Qatawneh, 2019). This study defined the strategy criterion as being dedicated to the business with high spirit and consistency in achieving long-term business goals.

A strategy criterion aims to establish how businesses plan their short- and long-term objectives and how they might connect with consumers, suppliers, and partners (Masrom et al., 2017). It also allows the organization to insulate itself against risks caused by factors such as shifts in the economy, new products being introduced to the market by competitors, advances in technologies, changes to customer demands, community, and social needs, new security and cybersecurity requirements, and new governmental regulations (Malaysia Productivity Corporation, 2020). Finally, the strategy criterion may be a collaborative action and a cultural expression. The strategy will become an intrinsic component of the organization's management as it is gradually integrated into the systemic totality of the institution (Correia et al., 2021).

2.2.3 Information Criterion

Information criterion focuses on how an institution handles information that connects its functional areas (M.P.C., 2020). It also includes assessing and analyzing performance, aligning analysis, performance evaluation, planning, recognizing causation, and knowledge management (organizational learning, knowledge management, data and information availability, and information management) (Toma & Marinescu, 2018).

In business excellence, information criterion plays an important part (Mehmet & ÖZBOZKURT, 2019). Besides the leadership criterion, it has the most significant direct effect on the other factors (Dawabsheh et al., 2019). Day-to-day operations, including engaging with partners, suppliers, customers, and other stakeholders, are vital. To reach the best judgments, it is critical to have the appropriate information accessible to the relevant people at the proper time (Jankalová & Jankal, 2020). Therefore, the information criterion is one of the most critical factors contributing to implementing B.E.M. effectively (Dawabsheh et al., 2019). As a result of the information criterion, S.M.E.s are more aware of external and internal developments and challenges.

2.2.4 Customer Criterion

Customer criterion investigates how businesses evaluate their service and product expectations, determine customer groups and market sectors, and measure customer satisfaction to guarantee that products and services remain relevant and new business prospects are developed (Masrom et al., 2017).

The customer criterion is the most powerful influence on business performance (Raharjo & Eriksson, 2017). It increases their pleasure, determines their preferences, and strengthens their loyalty to the brand. Customers-focused management necessitates awareness of technical advancements, familiarity with rival offerings, and the ability to react swiftly and flexibly to their demands and expectations. Ensuring customer satisfaction is critical to an organization's competitiveness and has become a strategic concern in today's market (Jankalová & Jankal, 2020). As a result, a great organization plans and optimizes critical processes to increase productivity, reduce costs, and enhance the quality of services and products to boost customer satisfaction (M.P.C., 2020).

2.2.5 Workforce Criterion

The workforce criterion examines how the company enhances its workforce competencies and abilities to complement its policies and strategies and assure the efficiency of its procedures (M.P.C., 2020). Therefore, this study defines workforce criterion as the ability of S.M.E.s to operate, expand, and evaluate their workforce. As a result, the workforce will succeed in achieving its overall objective, strategy, and action plans.

One of the significant factors for success in B.E.M. is the workforce criterion (Carvalho et al., 2018) because it improves the quality of their services and products (Eltahir, 2019). The findings regarding workforce criterion indicate that exceptional firms have successfully streamlined supportive strategies and policies focused on meeting worker requirements and expectations and implementing effective worker-management practices. At suitable time intervals, they assess and analyze worker perceptions, performance indices, and results connected to methods (Ershadi & Eskandari Dehdazzi, 2019). It also concerns employee participation and capability development (Machado et al., 2020). As a result, a great company with engaged workers has a highly productive workforce that is skilled and devoted to executing the strategic plan to the best of its abilities.

2.2.6 Process Criterion

Excellent companies focus on creating, managing, and enhancing processes, goods, and services to provide more excellent value to consumers and stakeholders (Lasrado & Uzbeck, 2017). This involves developing core competencies, determining effective work systems, and continually improving critical processes to implement those work systems (Masrom et al., 2017). Therefore, process criterion is an essential tool for S.M.E.s to accomplish success in their businesses.

The process criterion focuses on how businesses define their core competencies and work systems and develop, manage, and enhance those crucial aspects to ensure effective implementation (Masrom et al., 2017). It also stresses the "mechanism" through which any institution's value proposition is delivered (Lasrado & Pereira, 2018). It also encourages the International Standard ISO 9001 when developing, implementing, and improving the efficacy of quality management systems to improve customer satisfaction by satisfying customer needs; understanding how a system produces outcomes allows an organization to optimize the design and improve its performance (Jankal & Jankalová, 2017). Finally, it is the interaction of inputs, for instance, people, materials, machines, tools, and technologies, to generate a product or service that meets or exceeds customer expectations (M.P.C., 2020).

2.2.7 Results Criterion

People, customers, society, and business results are grouped into this last criterion, whereas "Enablers" are split into resources, partnerships, strategy, people, leadership, processes, products, and services (Jarde, 2019). It is about what an organization has accomplished in all areas discussed in Criteria 1 to 6 in the context of Malaysian S.M.E.s (M.P.C., 2020). As a result, the outcomes criterion focuses on the company's accomplishments and goals. This area of criterion has also been linked with the success of entrepreneurs.

Excellent organization enhanced operating income, increased sales growth, improved cost management, raised capital expenditures, and grew employment and total assets (Tickle et al., 2016). As a result, the results criterion influences customer satisfaction criteria (Raharjo & Eriksson, 2017). Excellent firms use these results to reassess strategy, improve procedures, and develop new goods and services (Ershadi & Eskandari Dehdazzi, 2019). As part of the policy and strategy-making process, it influences the outcomes. The results criterion enhances processes and the production of new products and services and is expected to impact business performance positively.

3. Theoretical Framework

This study examined the causal links between the criteria of B.E.M. and business performance. (Sternad et al., 2019) posited that in smaller firms, the requirements of B.E.M. become virtually synonymous with the entrepreneur's skill as the owner-manager.

As shown in Figure 1, the proposed theoretical framework, every criterion of B.E.M., namely (a) leadership criterion, (b) strategy criterion, (c) information criterion, (d) customers criterion, (e) workforce criterion, (f) process criterion and (g) results criterion is treated as the independent variables. In contrast, the dependent variable is self-reported business performance. Concerning the dependent variable, the prime goal of any business is to achieve success.

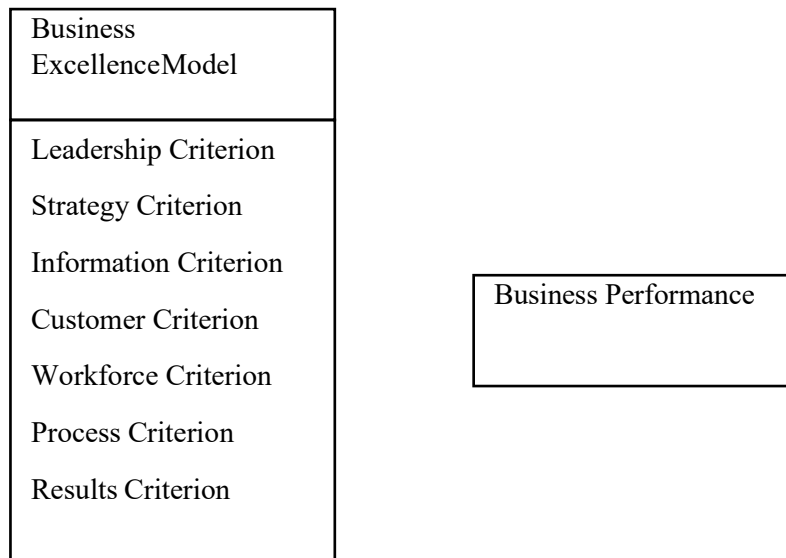


Figure 1. Theoretical framework

4. Methodology

This study proposed to conduct PLS-SEM to test the regression among the study variables. PLS-SEM is primarily used to develop theories in exploratory research or predicating purposes in a study (Ramayah, Cheah, Chuah, Ting, & Memon, 2018). Therefore, it has been proven that S.E.M. approaches effectively investigate moderating effects (Zaman, Nawaz, Tariq, & Humayoun, 2020). Finally, PLS-SEM has been extensively applied in research in the fields of business, education, and social sciences, such as behavioural sciences (Richter, Sinkovics, Ringle, & Schlägel, 2016), Marketing (Dash & Paul, 2021) and business strategy (Sarstedt, Ringle, Smith, Reams, & Hair, 2014). The PLS-SEM method will be employed in this study as one of the statistical analyses.

5. Discussion and Conclusion

This paper aims to develop a broad-based model of business excellence exclusively and mutually for S.M.E. entrepreneurs in developing nations, such as Malaysia, to succeed in their businesses. As traditional roles become less frequent in various entrepreneurial careers, additional criteria are required for S.M.E. entrepreneurs. Failure to recognize this broader business excellence model that is exclusively and mutually for S.M.E. entrepreneurs may compromise the capacity to predict business performance for S.M.E. entrepreneurs. Therefore, conducting a comprehensive analysis of the business excellence model that encompasses the entire criteria necessary for effective implementation is crucial. Future research should conduct an empirical study to examine the relationship between each measure of the business excellence model and business performance.

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