Serene Business Environment Moderated by Competitive Intensity on Performance of Small and Medium Enterprises (SMEs) in Malaysia

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Abstract

Effect of business environment on the performance of small and medium enterprises (SMEs) has been widely studied. However, researches on the effect of serene business environment, as well as moderator on performance of SMEs are lacking. Therefore, this research investigated effect of competitive intensity on the relationship between serene business environment and performance of SMEs in Malaysian context. Accordingly, a cross sectional survey design was adopted, and data of 148 respondents was collected and analyzed using descriptive and inferential statistics – frequencies, percentages and partial least square – structural equation modelling (PLS-SEM). From the findings, Malaysia’s serene business environment is an important driver of SMEs’ performance. Yet, the research found that competitive intensity is an important factor that strengthened causal relationship between economic environment and performance, as well as between regulatory environment and performance. However, the effect of competitive intensity in strengthening causal relationship between financial market environment and performance, as well as between technological environment and performance was not found. The current results brought a new insight in this field of study. Therefore, several research implications and recommendations to business managers and policy makers were highlighted.

Keywords: serene business environment, competitive intensity, performance

1. Introduction

It is a universally perception that small and medium enterprises (SMEs) are key for economic growth (Sana, Poddar, & Paul, 2020), specifically for contributing to gross domestic product (GDP), providing job opportunities, redistributing of productive assets and improving people’s standard of living (Sitharam & Hoque, 2016). Surprisingly, high rate of SMEs failure was reported globally due to inability to successfully perform (operate) in the business environment (Takata, 2016). Yet, many SMEs could not achieve the desired level of performance, in an environment that is characterized by inadequate access to finances (Haron & Ibrahim, 2016), absence of new technology/technology upgrade (Adeoye & Elegunde, 2012), economic and political instability (Meyer, 2019), and high level of crime and corruption (Bah & Fang, 2015). Hence, enabling business environment is necessary for SMEs’ development (Meyer, 2019), as both internal and external business environmental factors are important for firms seeking to improve performance level and achieve high growth (Prajogo, 2016).

Accordingly, prior studies investigated the effect of business environment on performance of SMEs (Sitharam & Hoque, 2016; Eruemegbe, 2015; Chadee & Roxas, 2013; Mazanai & Fatoki, 2012), with greater focus on internal drivers and external environmental forces and higher financial returns (Leonidou, Christodoulides, Kyrgidou & Palihawadana, 2015); industry forces (competitive rivalry and power of suppliers) and performance (Takata, 2016); and regulation, crime, corruption, infrastructure and output and productivity of firms (Bah & Fang, 2015). Thus, neglecting effect of moderator on serene business environment and performance of SMEs relationship.

In this context, a serene business environment is described as an environment with favorable financial market, technological, economic and regulatory environment; for SMEs to freely compete and improve performance level in the market scene. Therefore, the current research fills this gap, and the paper is structured into: introduction, literature review (business environment, Malaysia’s serene business environment, performance, conceptual framework and hypotheses development), methodology, analysis and findings, and discussion and implications.
2. Literature Review

2.1 Concept of Business Environment

The concept of business environment is diverse and lacks a universally acceptable definition, because it is often described as: (a) the totality of surroundings of an organization; (b) all the influences, conditions and circumstances affecting firm’s internal systems or organization as a whole; as well as (c) environmental dynamics, complexities, forces and factors that affect business enterprises (Erumegebe, 2015). Accordingly, Sitharam and Hoque (2016) defined business environment as factors both inside and outside the organization, influencing the continued and successful existence of the organization. Hence, factors inside the business are known as internal environment; while, factors outside the business are known as external environment, as firms must simultaneously interact, adapt, transform and use every circumstance in the environment, to achieve a predetermined level of performance.

2.2 Malaysia’s Serene Business Environment

Malaysia is one of the emerging economies of the world, located in the Southeast of Asia (Lee, Wong, Intarakumnerd, & Limapornvanich, 2020), which is endowed with serene (favorable) business environment (Meyer, 2019), abundant natural resources and harbored multitude of business enterprises – both national and multi-national businesses, including micro, small, medium and large businesses (Cheong, Lee & Weissmann, 2020). Hence, government is committed to provide enabling environment that support enterprises through diverse national policies and programs.

According to Hamdan, Fathi and Mohamed (2018), most businesses in Malaysia have achieved diversification and growth both at local and international market, as government introduced several national policies to support SMEs, in terms of access to finance, technology transfer, stable economic policies and regulatory framework to improve firms’ competitiveness in the market. Among the national policies are “import substituting industrialization (ISO) and export oriented industrialization (EOI)” which aimed to discourage importation of goods and services, revamp local economy (production) and encourage exportation of Malaysia’s goods.

Other policies that government introduced, according to Hamdan et al. (2018) are “Look east policy and science and technology policy,” which seek to improve work organization, enhance transfer of soft technology, development of new knowledge based industries and commercialization of products. Furthermore, the government has introduced an “industrial master plan (1980 – 2020), national automotive policy (2000 to date) and offset policy (1980 – 2014)” in order to help SMEs sustain productivity, compete in the marketplace and achieve high economic of scale. Therefore, the critical components of Malaysia’s serene business environment are: (1) financial market environment, (2) technological environment, (3) economic environment, (4) regulatory environment, and (5) competitive intensity.

2.2.1 Financial Market Environment

Financial market environment relates to supply and demand of finances (flow of finances) in the business environment in one hand, and transactions between lenders and borrowers on the other hand (Makorere, 2014). Also, Salikin, Ab Wahab and Muhammad (2014) asserted that decision to raise money (debt financing, equity financing or retained earnings) to finance productive assets or expand capital base to achieve growth is core responsibility of business managers. Hence, finances, internal or external are critical to the SMEs’ growth, and lack of finances can result to business failure (Haron & Ibrahim, 2016).

Accordingly, the government of Malaysia through SME Corp initiated various financial and infrastructural assistance to SMEs in three key aspects (loans, credit and equity participation; financial grant; and infrastructure and support services), in order to fully access, compete and perform within the business environment (Cheong et al., 2020). Other financing options available for SMEs in Malaysia are New Entrepreneurs Fund 2, Soft Loan Scheme and Fund for Small and Medium Industries 2, which were specifically introduced for working capital and projects financing (Cheong et al., 2020). In addition, the government provides small debt resolution scheme for SMEs to: (a) in the short-run, improve marketing efforts, product rollout and sustain operation; and (b) in the long-run generate enough profit (Brau, Cardell & Woodworth, 2015). Therefore, financial market environment is described as level of accessibility of internal and external finances by enterprises.

2.2.2 Technological Environment

Technological environment involves the level of adoption of new technology or technological upgrade in one hand; and level of technological advancement or sophistication on the other hand (Lee et al., 2020). According to this view, the era of IR 4.0 is characterized by smart factories that featured several technologies such as Internet of things, smart cars, big data, artificial intelligence (AI) and 3D printing to satisfy the order of on-demand
economy; on the other hand, IR 3.0 and 2.0 symbolized the era of automation and mass production stage. Hence, SMEs in Malaysia need to achieve a realistic level of technological sophistication through automation and upgrade, exclusively in terms of food processing, electronics and automotive, in order to enhance competitiveness and performance of firms in market place (Hamdan et al., 2018).

In the same way, Malaysia’s government launched national policies such as third Industrial Malaysia Plan (IMP), 10th Malaysian Plan (10MP) and state agencies like Penang Skill Development Centre (PSDC) and Penang R&D consortium (CREST), to support SMEs in adopting new technologies, training, research and development, and industrial cooperation with universities and multinational corporations and pave way in the encouragement of firms to gain a foothold both locally and internationally (Isa, Saman & Preece, 2015). Thus, technological environment is described as level of adoption of new technology or technological upgrade by business enterprises (Eruemegbe, 2015).

2.2.3 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 (Dragić, 2014). According to Meyer (2019), Malaysia has achieved economic growth for quite some decades, with inclusive and rapid GDP growth of 6.4%. Similarly, the 11th Malaysia development plan paved way for the economy to absorb all external shocks (Koen et al., 2017), as it becomes more opened, modern and diversified (Raza, Mohiuddin, Zaidi, & Osama, 2018), and also, supports job creation, technology transfer and establishment of national and multinational corporations (Rasiah, Shan, & Salih 2017; Thiruchelvam, Ng, & Wong, 2013).

Equally, Lee et al. (2020) acknowledged that the economy of Malaysia has developed from economy that export primary commodities or depend on agriculture, to the one that appropriate multisector for growth. In addition, Meyer (2019) asserted that the Malaysian economy 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, economic environment is described generally as one with stable political and government system, as well as quality institutions and right policies and programs, for SMEs to successfully operate and perform in market scene (Sana et al., 2020; Meyer, 2019).

2.2.4 Regulatory Environment

Regulatory environment is conceptualized in terms of regulatory quality (Chadee & Roxas, 2013), and regulatory framework (Leonidou et al., 2015). While, regulatory quality relates to rule of law – level at which firms comply with government regulatory procedures in doing business, licenses permit, existing rules and laws, as well as bureaucratic rigidities of government agencies. On the other hand, regulatory framework relates to regulatory forces and environment legislations that govern business activities. Hence, government must reshape the business environment through adoption of various legislations and laws (Marinova, Child & Marinov, 2012).

Similarly, Chadee and Roxas (2013) argued that a sound regulatory environment must upholds the rule of law principles and to a greater degree be free of crime and corruption. According to this view, the Malaysian government provides sound regulatory environment through a framework that governs both technology transfer, industrial linkages, as well as establishment and operations of businesses – micro, small, medium, large and multinational enterprises (Hamdan et al., 2018). Therefore, regulatory environment is described as level of compliance with relevant government regulations by business enterprises.

2.2.5 Competitive Intensity

Leonidou et al. (2015) contend that competitive intensity is a reflection of competitive environment, whereby market forces are most important drivers of performance level among business enterprises. Likewise, Prajogo (2016) described competitive intensity as vital factor that drives performance, especially through adoption of new technology and utilization of differential opportunities by business entities in their determination to sustain productivity, increase market shares and achieve high performance in marketplace. Hence, every government must provide a level playing field for SMEs to enjoy equal opportunities (Chadee & Roxas, 2013), and demonstrate opportunistic behavior to outperform competitors in market place (Deng & Low, 2014).

In line with this, the Malaysian government assists SMEs in providing a responsive competitive environment that facilitates adoption of new technology, reduction of trade barriers and establishment of good business practices, for firms to achieve optimum performance level (Meyer, 2019). Therefore, competitive intensity is
described as level of competitiveness among business enterprises in a market environment.

2.3 Concept of SMEs’ Performance

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 has undergone a revolutionary process. For example, Leonidou et al. (2015) defined performance as the final achievement of an organization which is measured using financial and non-financial indicators and contains things like – 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 ability of an enterprise to achieve such objectives as profitability (return on capital, high profit margin and increase in net profit), as well as 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 level of capacity utilization (Chadee & Roxas, 2013); market or financial performance (Leonidou et al., 2015); sales growth or profitability (Prajogo, 2016); as well as, achievement of corporate goals (Adoeye & Eleghunde, 2012). Scholar such as Takata (2016) and Commander and Svejnar (2011) have maintained that business environment within which an enterprise operate could have an effect on its overall performance. Hence, serene business environmental factors are essential in the improvement of performance level of SMEs.

2.4 Conceptual Framework

The conceptual framework is based on believed that serene business environmental factors enhance the performance of SMEs. In this framework, serene business environment is the independent variable and was conceptualized in terms of financial market environment, technological environment, economic environment and regulatory environment. While, competitive intensity is introduced into the model as a moderating variable. On the other hand, performance is the dependent variable. Thus, figure 1 showed that competitive intensity moderates the relationship between serene business environmental factors and SMEs’ performance.

![Figure 1. Conceptual Framework](image)

2.5 Hypotheses Development

There has been a long tradition to support the assumption that environment influences organizational performance (Chen et al., 2014), business performance (Prajogo, 2016), or firm performance (Commander & Svejnar, 2011), with less emphasis to effect of moderator (Leonidou et al., 2015). Therefore, this study bridged this gap and tested effect of competitive intensity as moderator in the stream of business environment and SMEs’ performance research.

2.5.1 Financial Market Environment and Performance

The effect of different factors in the financial market environment on performance of SMEs has been widely studied. In a study, Cheong et al. (2020) showed that access to credit sources is important in boosting SMEs’ performance. Equally, the study of Brau et al. (2015) found that government grant assistance is very effective in enhancing profitability of SMEs both at short and long term. In addition, Chaudhuri, Boer and Taran (2018) found that strong positive causal effect exists between better access to finance and growth of SMEs. Yet, De and
Nagaraj (2014) have established a positive relationship between better funding, productivity and liquidity of SMEs. Moreover, Haron and Ibrahim (2016) maintained that Islamic financing schemes are critical for the growth, development and competitiveness of SMEs. Therefore, the study hypothesized that,

**H1: Financial market environment exerts significant effect on SMEs’ performance in Malaysia.**

2.5.2 Technological Environment and Performance

Prior studies have investigated the relationship between technological environment and performance of SMEs. Accordingly, the study of Hamdan et al. (2018) found that effective technology transfer is important in supporting SMEs’ growth and performance. Similarly, Sitharam and Hoque (2016) established that technological advancement is critical in promoting the performance of SMEs. Equally, Eruemegbe (2015) established that technological equipment exerts great influence on organizational performance. Likewise, the study of Chen et al. (2014) reported that information technology adoption can enhance organizational performance of SMEs. Additionally, the results of Adeoye and Elegunde (2012) showed that technological factor exerts great impact on performance of SMEs. Moreover, Yayla and Hu (2012) reported that information technology alignment exerts a statistically strong influence on performance of SMEs. Therefore, the study hypothesized that,

**H2: Technological environment exerts significant effect on SMEs’ performance in Malaysia.**

2.5.3 Economic Environment and Performance

The relationship between general economic environment and SMEs’ performance has been investigated. In a study, Meyer (2019) established that certainty of economic policies and political stability/freedom are key factors that determine both investment and growth of business enterprises. Similarly, the study of Dragnić (2014) reported that the performance of SMEs which is measured in terms of sales growth and goals achievement is significantly influenced by the general state of the economy. In addition, Adeoye and Elegunde (2012) found that both economic, political and socio-cultural factors have significant influence on performance of SMEs, which is measured in relation to achievement of profitability and corporate goals, increase in sales and effectiveness and efficiency. Therefore, the study hypothesized that,

**H3: Economic environment exerts significant effect on SMEs’ performance in Malaysia.**

2.5.4 Regulatory Environment and Performance

Prior studies showed that regulatory environment is critical in boosting the performance of SMEs. For example, in a study, the study of Cheong et al. (2020) found that tax rules are important in boosting SMEs’ performance. Likewise, Meyer (2019) maintained that both property right protection and law and order are significant factors that influence investment and growth among business enterprises. Still, Leonidou et al. (2015) stated that high public concern and regulatory intensity affect the performance of SMEs. Yet again, Chadee and Roxas (2013) discovered that both rule of law and regulatory quality may have a direct impact on firm performance. Furthermore, Bah and Fang (2015) established that environmental regulations have direct linkage with SMEs’ productivity and output. Therefore, the study hypothesized that,

**H4: Regulatory environment exerts significant effect on SMEs’ performance in Malaysia.**

2.5.5 Competitive Intensity as Moderator

A number of studies have tested the relationship between competitive environment and performance of SMEs in different context. For instance, the study of Prajogo (2016) showed that environmental competitiveness is key in facilitating SMEs’ performance in Australian setting. Equally, Takata (2016) established that competitive forces of an industry are major drivers that enhance performance of Japanese manufacturing firms. Still, Isa et al. (2015) found that competitive market factors are important determiners of performance among Malaysian SMEs in construction industry. Similarly, the moderating effect of competitive intensity has been tested in research stream of business environment and performance, Leonidou et al. (2015) found that high competitive intensity strengthened the relationship between internal business environment (organizational resources and capabilities) and performance. Similarly, Chen et al. (2014) found that the effect of information technology (IT) capability on performance is strongly influenced by competitive environmental complexities. Therefore, the study hypothesized that,

**H5: Competitive intensity moderates the relationship between financial market environment and SMEs’ performance in Malaysia.**

**H6: Competitive intensity moderates the relationship between technological environment and SMEs’ performance in Malaysia.**
**H7:** Competitive intensity moderates the relationship between economic environment and SMEs’ performance in Malaysia.

**H8:** Competitive intensity moderates the relationship between regulatory environment and SMEs’ performance in Malaysia.

### 3. Methodology

This research is quantitative and cross sectional, as the analysis and outcome was based on data collected at one point in time. According to research objective, a questionnaire was used to obtained personal information and data about owners/managers of SMEs and research variables. A total of 2,358 SMEs in Penang, Malaysia, were the population of the study (Haron & Ibrahim, 2016), which accounting for 331 samples (Krejcie & Morgan, 1970). Prior instruments were adopted to measure all the variables. Accordingly, 4 items were adopted from Chen et al. (2014) to measure dependent variable – performance. On the other hand, items that measure independent and moderating variables were adopted as follows: 2 items for financial market environment were adopted from Cheong et al. (2020); 4 items for technological environment were adopted from Aziz and Yassin (2010); 5 items for economic environment were adopted from Meyer (2019); and 6 items for regulatory environment and 4 items for competitive environment were adopted from Leonidou et al. (2015). The data was analyzed using descriptive statistics and partial least square – structural equation modelling (PLS-SEM) techniques.

### 4. Data Analysis and Findings

#### 4.1 Response Rate

In this study, 331 questionnaires were distributed to owners and managers of SMEs in Penang, Malaysia. But, the study only retrieved back 147 questionnaires from the respondents. While, a total of 184 respondents did not return back the questionnaires. Also, in the preliminary analysis, 7 questionnaires were observed as outliers and therefore, removed from statistical analysis, accounting for 42.29% response rate.

#### 4.2 Descriptive Statistics

The result of descriptive statistics on gender of respondents showed that 128 out of the 140 owners/managers of SMEs who responded to the survey are males (91.4%). On the other hand, 12 owners/managers of SMEs who responded to the survey are females (8.6%). Still, in terms of sector of business operation, descriptive statistics showed that the majority of the SMEs’ owners/managers who filled the questionnaire (62 respondents accounting for 44.3%) operate in the manufacturing sector. While, 51 respondents who accounted for 36.4% of total respondents, operate in the service sector. On the other hand, 27 SMEs’ owners/managers who accounted for 19.3% of total respondents operate in other sector such as agriculture, food and beverage, and mining. In terms of duration of business operation, results showed that majority of the owners and managers of SMEs who participated in the survey (64 respondents accounting 45.7% of total respondent) have been in business for the past 5 years. Whereas, 56 owners and managers of SMEs who accounted for 40% of total respondents have been in business for the past 10 years. Yet, results showed that 20 owners and managers of SMEs (14.3% of total respondents) have been in business for more than 10 years.

#### 4.3 Assessment of Measurement Model

The measurement model assessment is contained in figure 2. In the assessment, recommendation of Hair et al. (2014) was followed, and from the outcome, the latent variables have adequate reliability and validity level. However, the average variance extract (AVE) is achieved after deletion of – 1 item among the 4 items that measure performance, 1 item among the 4 items that measure technological environment, 2 items among the 5 items that measure economic environment, 3 items among the 6 items that measure regulatory environment, and 1 item among the 4 items that measure competitive intensity. On the contrary, no item was deleted among the 2 items that measure financial market environment, as it achieved the highest AVE.
Accordingly, Table 1 showed that the composite reliability value for all the constructs is satisfactory and ranges from 0.760 to 0.828. Likewise, all the constructs have satisfactory value of AVE of 0.5, which ranges from 0.517 to 0.707. Hence, both reliability coefficient and AVE value are above recommended threshold.

| Construct                      | Cronbach's Alpha | Composite Reliability | Average Variance Extracted (AVE) |
|--------------------------------|------------------|-----------------------|----------------------------------|
| Competitive Intensity          | 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                            |

Furthermore, Fornell-Larcker Criterion in Table 2 established that the level of discriminant validity of research instruments is adequate and acceptable, as each of the latent variables loaded strongly (both in rows and columns) in its own construct. Suggesting that no multicollinearity problem among variables.

|                     | 1   | 2   | 3   | 4   | 5   | 6   |
|---------------------|-----|-----|-----|-----|-----|-----|
| Competitive Intensity| 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 |
4.4 Assessment of Structural Model

In evaluation of causal relationship among variables, technique adopted by Hair et al. (2014) was followed. According to the research outcome, 52.9% of variance in performance was explained by financial market environment, technological environment, economic environment, regulatory environment and competitive intensity. Also, the result in figure 3 showed that financial market environment (B = 0.197, t-value = 2.900, p-value = 0.00), technological environment (B = 0.233, t-value = 3.103, p-value = 0.00), and regulatory environment (B = 0.262, t-value = 3.738, p-value = 0.00) have strong positive causal effect on performance of SMEs in Malaysia. On the other hand, both economic environment (B = -0.231, t-value = 3.807, p-value = 0.00) and competitive intensity (B = -0.194, t-value = 3.594, p-value = 0.00) have strong negative causal effect on performance of SMEs in Malaysia.

In addition, results showed that the causal effect of regulatory environment and economic environment on SMEs’ performance is highly substantial with f square values of 0.208 and 0.164. While, the causal effect of technological environment on SMEs’ performance (0.103) is moderate. Nevertheless, causal effect of financial market environment on SMEs’ performance (0.090) and competitive intensity on SMEs’ performance (0.059) is minor. Therefore, H1, H2, H3 and H4 were supported at less than 0.01 significance level.

Further statistical in Table 4 showed that competitive intensity exerts significant moderating effect on relationship between economic environment and SMEs’ performance (B = -0.258, t-value = 1.625, p-value = 0.05), as well as regulatory environment and SMEs’ performance (B = 0.326, t-value = 2.353, p-value = 0.01). Hence, H7 and H8 were supported. On the other hand, competitive intensity failed to moderate relationship between financial market environment and SMEs’ performance (B = 0.187, t-value = 1.261, p-value = 0.104), as well as relationship between technological environment and SMEs’ performance (B = 0.116, t-value = 0.621, p-value = 0.268). Therefore, H5 and H6 lack statistical support.

Table 4. Path Coefficients, Effect Size and Coefficient of Determination

| Path                                             | Beta   | Standardized Beta | T Values | P Values |
|-------------------------------------------------|--------|-------------------|----------|----------|
| Competitive Intensity -> SMEs Performance        | -0.194 | 0.054             | 3.594    | 0.000    |
| Economic Environment -> SMEs Performance        | -0.231 | 0.061             | 3.807    | 0.000    |
| Financial Market Environment -> SMEs Performance| 0.197  | 0.068             | 2.900    | 0.002    |

Figure 3. Structural Model Assessment
5. Discussion and Research Implications

This research examined the moderating effect of competitive intensity on the serene business environment and SMEs’ performance relationship in Malaysian context. To achieve research objective, 4 direct hypotheses were tested on the relationship between financial market environment, technological environment, economic environment, regulatory environment and SMEs’ performance. Secondly, 4 moderating hypotheses on the effect of competitive intensity on relationship between financial market environment, technological environment, economic environment, regulatory environment and SMEs’ performance were tested. Interestingly, the research established causal effect of serene business environment on SMEs’ performance in Malaysia. Likewise, the research established the effect of competitive intensity on economic environment and SMEs’ performance relationship, as well as regulatory environment and SMEs’ performance relationship.

Therefore, the current finding corroborated prior researches that established effect financial market environment (Cheong et al., 2020; Chaudhuri et al., 2018; Brau et al., 2015), technological environment (Hamdan et al., 2018; Sitharam & Hoque, 2016), general economic environment (Meyer, 2019; Dragnić, 2014), regulatory environment and competitive intensity (Meyer, 2019; Leonidou et al., 2015), on performance of SMEs.

By implication, the outcome suggests that accessibility to (external and internal) finances for future growth investment; accessibility to (new or upgraded) technology to improve production process/service delivery; favorable economic (political) atmosphere; and effective regulatory framework are important for SMEs seeking opportunity to increase customer satisfaction, customer base, market share, sales and profitability level. Similarly, the current outcome suggests that though, high competitive intensity failed to strengthen the effect of financial market and technological environment on SMEs’ performance; however, it exerts a great effect in strengthening the relationship between economic environment and SMEs’ performance, as well as between regulatory environment and SMEs’ performance.

The finding is quite interesting, as it demonstrated that the effect of high competitive intensity on performance of firms is favored in an environment that enjoyed stable economic and political atmosphere, as well as appropriate regulatory framework; rather than, in an environment where firms encountered difficulty in accessing finances and technology, due to cumbersome procedure and administrative bottleneck. Yet, implying that competitive intensity of firms cannot stimulate the performance of firms, in an environment where managers/owners are unwilling to access enough fund or procure relevant technology to improve operation and overall performance level.

Therefore, the study recommended that managers of SMEs need to fully appreciate the business environment, as a mechanism to boost performance level (increase customer base, market share, sales and profit margin). Additionally, the study recommended that Malaysian government through relevant agencies should continue to sustain a serene business environment by supporting the SMEs, in terms of funding, acquisition of latest technology, good economic policies and sound regulatory framework, as a prerequisite for SMEs to sustain operation, increase productivity, achieve corporate objectives and contribute to economic growth.

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