

# Conceptual Framework of the Impact of External Support on Business Performance amongst SMEs: The Mediating Role of Organisational Capability

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**Abstract:** This paper aims to focus on the impact of government support and financial resource support that affect the business performance amongst small and medium enterprises (SMEs) and their development; and to create a conceptual framework model describing their relationships. The literature mentioned that, although there are significance relationships between government support, financial resource support and business performance in the context of SMEs in Malaysia, the relationships are still inconclusive, which recommends that there are intervening constructs between the two constructs. Thus, a previous study proposed that organisational capability can serve as a mediating role between government support, financial resource support and business performance, which may clarify the relationship. Future empirical studies could be conducted with a quantitative analysis with primary data, whilst this study will be conducted using a survey research. Particularly, questionnaires will be distributed to the targeted respondents (owners/managers of the SMEs). Finally, it is expected that the proposed framework model may provide more effective SMEs.

**Keywords:** Government Support, Financial Resource Support, Organisational Capability, Business Performance, Small and Medium Enterprises (SMEs)

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## I. Introduction

Small and medium enterprises, which are usually called SMEs, are acknowledged as primary contributors to the nation's development of economic and employment creation growth (Hande, 2016). This type of business can be easily found in almost all countries in the world and they generally have limited financial resources as well as limited infrastructures (Jones & Cravenm, 2000).

In Malaysia, the SMEs play a primary role as well in directing the development of the nation but the firm performance of Malaysian SMEs is still considered weak (Khan & Khalique 2014). Hyder and Lussier (2016) also mentioned that small businesses are usually faced with a high failure rate in their business activities. Ridzwan, Muhammad, and Rahman (2017) found that there were only 20% of the Malaysian SMEs which survived and were successful in market performance every year.

To improve SME growth and competitiveness, it is very important that business owners and/or managers make use of the available sources of support (Mole, North, & Baldock, 2016). Whether they seek this depends on the degree to which they perceive themselves to need support and assistance (Mole, North, & Baldock, 2016). Therefore, SMEs should seek assistance from external support. A Resource-Based theory perspective emphasises the competitive benefits to be obtained from seeking and getting business assistance and support (Barney, 1991).

The purpose of this paper is to investigate some of the determinants of SME performance that influence SMEs' growth, and to identify the relationships amongst those determinants. Nevertheless, this paper also develops a conceptual framework for describing the significant relationship between external support and business performance, which takes into consideration organisational capability as a mediator. This paper has covered the literature review of the determinant dimensions which include the government support and financial resource support towards the organisational capability as a mediating role, and which will influence business performance. The contribution of this paper is in combining those variables into a comprehensive conceptual framework to enable a better understanding and clarity about how the efforts should make for cultivating SMEs' growth and development. Next, the relevant hypotheses will be constructed from the proposed conceptual framework model. In total, five hypotheses on the relationships amongst those four constructs will be generated. Lastly, the conclusion will be mentioned.

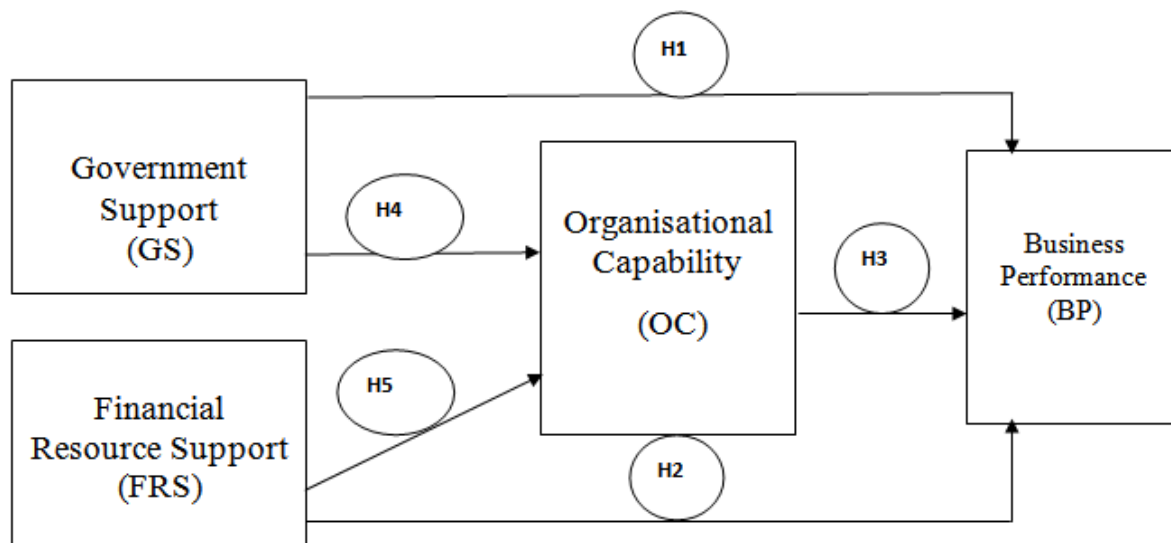
## II. The proposed conceptual framework

The proposed conceptual framework model has been constructed to study the significant relationships of government support, financial resource support, organisational capability, and business performance. Through the previous research of the studies, the critical determinant factors which are able to affect the organisational capability towards business performance were reformed to match with this study. The proposed research framework model as shown below in Figure 1 indicated that the independent variables, which included Government Support (GS) and Financial Resource Support (FRS) towards Organisational Capability (OC) as a mediating variable, will influence Business Performance (BP).

Therefore, Business Performance (BP) is the dependent variable in this study and it is also the primary focus of this paper. In addition, the Organisational Capability (OC) in this study will act as the mediating variable. Furthermore, this proposed conceptual framework model will state that the determinant factors have significant relationships with Organisational Capability (OC), and then Organisational Capability (OC) as the mediator will also have significant influence on Business Performance (BP). To highlight, this study intends to construct the gap by providing a fundamental for a complete and perceptive evaluation on the relationships between government support, financial resource support, organisational capability, and business performance.

**Table 1.1:** The element of constructs

Nomenclature	
GS	Government Support
FRS	Financial Resource Support
OC	Organisational Capability
BP	Business Performance.



**Figure 1:** Proposed conceptual framework of the relationships amongst study variables

## III. Literature review

### 3.1 Business Performance (BP)

The concept of performance is a significant dependent variable and many researchers had applied this variable in the business management literature (Richard, Devinney, Yip, & Johnson, 2009). Business performance can also be explained by how well an organisation is doing (Koons & Donnell, 1993; Obiwuru, Okwu, Akpa, & Nwankwere, 2011). The concept of performance is studied to decide the success of a business entity whether small, medium or big, in achieving its goals (Anggadwita & Mustafid, 2014). In this paper, business performance is operationalised as below:

**Table 1.2:** Business Performance dimension

Item instruments
Growth in sales revenue
Profitability
Return on asset
Return on sales
Market share
Labour productivity
Level of customer satisfaction
Overall financial performance
Level of customer loyalty
Growth of machine

Sources: Rosli, Kuswantoro,& Omar (2012)

### **3.2 Government Support**

Ismail and Othman (2014) stated that the government introduced numerous assistance programmes and incentives which were called government-support programmes (GSPs) in order to help and assist SMEs in Malaysia. According to Hashim, Mahajar, and Ahamd (2003), government support can be delineated as agencies and institutions which provided financial and technological assistance, consultancy, information resources, training plans, development, and so on, towards entrepreneurship development in Malaysia. According to Ntiamoah, Li, and Kwamega (2016), there are some existing government supportive policies to help SMEs due to the government realising that SMEs play the important role of economic development.

For those SMEs that acquire government support, some SMEs use the support to expand their businesses whilst others acquire the appropriate technology and knowledge to run their business. Meanwhile, Harper (2005) defined business support services as support services bought and used by the business, excluding financial resources. Non-financial business support can come in diverse forms of technical assistance, consultancy, marketing assistance, social networking, management, distribution and development initiatives (Harper, 2005). Thus, this study will focus on using the unidimensional government support which comprises non-financial support that can affect business performance amongst SMEs which was adapted from Abidah (2015).

### **3.3 Financial Resource Support (FRS)**

A Financial Resource can be depicted as the proportion of debt to business owner's funds or equity with regard to SMEs, as these are the major sources of finance for SMEs (Ibrahim & Ibrahim, 2015). In addition, financial resource support can also be referred to as the blood flow in any company (Bahago, 2015). It determines a large part of business performance. Furthermore, Bahago (2015) also addressed that the utilisation of financial capital can effectively and efficiently bring into manifestation, other determinant factors. Due to the inability of SMEs to access credit and financial resources, most SMEs have failed and their performances were poor. Studies by Banabo and Koroye (2011) revealed that injecting funds will raise living standards and improve operating performance, and will continue to add value to the economic growth. In this paper, financial resource support (FRS) is constructed as the amount from other incomes, financed with one's own capital, received contributions from business partners, and wage income received by friends, spouses, relatives, and family (Bosma, Praag, & Wit, 2000).

### **3.4 Organisational Capability**

Organisational capability is defined as a company's ability to utilise its pool of resources whether tangible or intangible to conduct and perform a task or business activity in order to foster firm performance (Amit and Schoemaker, 1993; Grant, 1991; and Teece, et al., 1997). Helfat and Peteraf (2003) also addressed the organisational capability as "the organisation's capacity to implement a coordinated set of business activities and deploying organisational resources to accomplish specific end results". Organisational capability is principal to firms' abilities to resolve their organisational problems effectively (Dosi, et al., 2000). Ouakouak, Ouedraogo, and Mbengue (2013) tested the mediating role of organisational capabilities for their study. To this end, they conducted a quantitative empirical study amongst 372 European companies that indicated that organisational capabilities were amongst such intermediate variables. Thus, organisational capability will play an important role of mediator between the independent variables and the dependent variable in this study which will be adopted from Cabarcos, Monteiro, and Rodriquez (2015).

## **IV. Hypotheses Development**

### **4.1 Government Support and Business Performance**

Regarding the SMEs play important role in country, the government has continuously put forth an effort to assist SMEs in their business activities (Jauriyah, 2014). Government support is the critical factor in assuring that SMEs' maintain elasticity and the ability to handle a dynamic business environment (Yusoff, et al., 2010). Wren and Storey (2002) found that the UK government's support initiative had positive effects on sales growth and development of SMEs. In addition, SMEs are those which are frequently used to a range of business advice that is provided by government agencies in order to grow their businesses more smoothly and quickly; so the contribution of the government support can make a positive contribution to SME growth (Bennett & Robson, 1999; Berry, Sweeting, & Goto, 2006; and Wren & Storey, 2002). Thus, the hypothesis is:

*H1- There is a Significant Relationship between government support and business Performance.*

### **4.2 Financial Resource Support and Business Performance**

Kazemy, Yaghoubi, and Ghodsi (2011) have stressed the critical determinant factors that affect SMEs' performances. The findings have indicated that access to financial support amongst others was considered very significant to the business performance. Therefore, it can be reasonably agreed upon that obtaining access to credit and financial sources is very important to the SMEs' performances. Chilya and Roberts-Lombard (2012) investigated that there is a significant relationship between business owner experience in accessing sources of finance and SMEs' performances. Furthermore, Oniovosa (2013) examined the strategic sources of financing's effect on business performance. Therefore, based on these findings, the following hypothesis has been made:

*H2- There is a Significant Relationship between Financial Resource Support and Business Performance.*

### **4.3 Organisational Capability and Business Performance**

Previous literature has identified the effects of dynamic organisational capabilities, particularly with regards to firm performance and business competitiveness (Easterby-Smith, Lyles, & Peteraf, 2009; Helfat, et al., 2007). Most of the previous research recognised the role of organisational capabilities in the achievement of firm strategy and in enhancing an enterprise's performance (Helfat, et al., 2007). Cabarcos, Monteiro, and Rodriquez, (2015) stated the importance of the choice of the business strategy as a partial mediator between organisational capabilities and profitability. Hence, the Hypothesis has been made as below:

*H3- There is a Significant Relationship between Organisational Capability and Business Performance.*

### **4.4 Government Support and Business Performance towards Organisational Capability as a mediating variable**

According to the contingency theory (Kuada & Sorensen, 2000; Lawrence & Lorsch, 1967) and RBV framework (Barney, 1991; Grant, 1991; and Newbert, 2008), the environmental context is an arena in which a business enterprise conducts and carries out its business. It also consists of the industry, competitors, and government (Tornatzky & Fleischer, 1990). Moreover, assets refer to the resources that the firms have accumulated, which include the efficiency of the infrastructure and systems, property investment, brand equity, and government support; and at the same time, organisational capability is the glue that brings all these assets together and leads them to be exploited advantageously (Day, 1994). Thus, the hypothesis has been made that:

*H4- There is a Significant Relationship between Government Support and Business Performance which is mediated by Organisational Capability.*

### **4.5 Financial Resource Support and Business Performance towards Organisational Capability as a mediating variable**

The concept of the Resource-Based View (RBV) was intended to conceptualise a comprehensive theoretical framework of significant relationships amongst the organisational resources, organisational capability, and competitive advantage (Grant, 1991). Grant (2002) suggested that a pool of resources of a firm, such as financial resource capital, knowledge, intellectual property, physical equipment, and infrastructure; intellectual property, human resources, skills, and expertise; and government support and many others are considered as primary and main inputs for firms that use organisational processes in order to operate their business activities. Besides that, financial resource and capital support, such as equity, liquid securities, credit, bank savings, cash, stocks, and shares also help to clarify the level of organisational competitive advantage and business performance (Ainuddin, Beamish, Hulland, & Rouse, 2007; Morgan, Kaleka, & Katsikeas, 2004). Thus the hypothesis has been made that:

*H5- There is a Significant Relationship between Financial Resource Support and Business Performance which is mediated by Organisational Capability.*

## V. Proposed Method

It is suggested that a quantitative analysis can be carried out in this study. According to Amaratunga, Baldry, Sarshar, and Newton (2002), quantitative methods help researchers to show statistical evidence on the significant relationships between both exogenous and endogenous constructs. They also contended that the statistical results provide the directions of the relationships when combined with theory and literature. Furthermore, Cavana, Delahaye, and Sekaran (2001) indicated that the quantitative methods can be used to verify the hypotheses and provide solid reliability and validity. Furthermore, the descriptive research approach has been recommended for use in this study. The principal aim of this type of study is to identify and indicate the data and characteristics about what is being considered and explored (Maheshwari, 2017). In addition, this type of study is also better to study the frequencies, averages, and other statistical calculations. According to Zikmund, Babin, Carr, and Griffin (2010), descriptive research is used to point out the characteristics and features of a targeted population or specific phenomenon. Descriptive research also involves the exploration of the correlation between two or more phenomena. Thus, the survey method to be developed in this study is questionnaire-based. The questionnaire will be administered and carried out in a selected sample from a specific population. Thus, the researcher will conduct the data collection analysis once the questionnaires are returned from the targeted respondents.

## VI. Conclusion

The study concentrated on the SMEs in Malaysia, with a view to investigate the impact of government support and financial resource support on SMEs' performances in Malaysia. Similarly, the study also focused on the mediation role of organisational capability on the relationship between government support, financial resource support, and business performance. In increasing SME establishments in Malaysia, SMEs need to know how to operate and run a business in order to achieve success and survival in their businesses whilst seeking a source of support and assistance from the government and access to financial sources. In addition, it is expected that the proposed framework model will be adopted by future empirical studies for the purpose of presenting a highlight about the impact of government support and financial resource support on SMEs' performances, which are mediated by the effect of organisational capability. Therefore, this paper opens the space and opportunity to all to know the elements that influence the SMEs' performances.

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