

Unleashing Sustainable Growth in Malaysian SMEs through the Development and Application of Entrepreneurial Competencies

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Abstract: *Entrepreneurship plays a pivotal role in driving the economic growth of developing countries like Malaysia, where Small and Medium Enterprises (SMEs) are crucial to job creation, innovation, and national income generation. However, Malaysian SMEs face various challenges, including limited access to finance, technological adoption barriers, and a lack of skilled workforce. These issues emphasize the importance of entrepreneurial competencies, which are the set of knowledge, skills, and attitudes that enable entrepreneurs to navigate challenges and foster business growth. This paper investigates the role of entrepreneurial competencies in the success of SMEs, particularly in Malaysia. It highlights the critical need for innovation, strategic thinking, leadership, and risk management skills. The study explores the gaps in entrepreneurial education and training and advocates for a more targeted approach to developing these competencies. Additionally, it discusses the impact of digital transformation, financial literacy, and mentorship programs in enhancing SMEs' performance. By addressing these challenges and promoting entrepreneurial education, the paper aims to provide insights for policymakers, educators, and entrepreneurs, facilitating the growth and sustainability of SMEs in Malaysia.*

Keywords: Entrepreneurship, Competencies, SMEs, Innovation, Strategy

1. Introduction

Entrepreneurship has long been regarded as a key driver of economic growth, particularly in developing countries like Malaysia. The success of Small and Medium Enterprises (SMEs) is integral to the nation's development, as SMEs contribute significantly to job creation, innovation, and the generation of national income (Hashim, 2020; Suryana, 2021). However, despite their essential role, SMEs in Malaysia face numerous challenges, including limited access to finance, technological adoption barriers, and the lack of skilled workforce (Nguyen et al., 2020; Lai & Lee, 2022). These challenges require SMEs to be more adaptive and resilient in an increasingly complex business environment. In this regard, entrepreneurial competencies play a critical role in enabling business owners to navigate challenges, innovate, and maintain competitiveness.

Entrepreneurial competencies are the set of knowledge, skills, and attitudes that are essential for entrepreneurial success (Koe et al., 2021; Cheung & Yip, 2022). These competencies encompass a range of capabilities, including strategic thinking, innovation, opportunity

recognition, leadership, and relationship-building (Baporikar, 2020; Sadiq et al., 2021). A competent entrepreneur is equipped not only with technical knowledge but also with behavioral traits and personal characteristics, such as risk tolerance, adaptability, and problem-solving ability (Neslon & Memon, 2021; Martin & Patel, 2022). The successful implementation of these competencies is critical for SMEs, as these businesses often operate in resource-constrained environments and require robust entrepreneurial strategies to ensure long-term success (Sundah et al., 2020; Grillo et al., 2021).

In Malaysia, the SME sector is vital to the economy, accounting for over 98% of businesses and contributing more than 37% to the national GDP (Department of Statistics Malaysia, 2021). Despite this, a substantial number of SMEs struggle with sustainability and growth due to gaps in entrepreneurial competencies (Ali et al., 2022). This situation has been further complicated by recent global challenges, such as the COVID-19 pandemic, which has forced many businesses to rethink their operational strategies, marketing techniques, and customer engagement approaches (Khoo et al., 2021). These disruptions highlight the urgency for Malaysian entrepreneurs to develop a comprehensive set of competencies that will allow them to thrive in uncertain times.

The role of entrepreneurial competencies in influencing business performance has been explored in various global contexts. Recent studies have found that specific competencies—such as innovation, strategic management, and risk-taking—are directly linked to the performance and growth of SMEs (Verhees & Meijers, 2021; Zahra et al., 2022). For instance, Ali et al. (2021) argue that SMEs in Malaysia must integrate technological competencies and digital skills into their business models to remain competitive. Moreover, scholars have emphasized the importance of soft skills such as leadership, communication, and networking in creating strong business relationships and expanding market presence (Liu & Wang, 2021; Ang et al., 2022). However, there remains a gap in understanding the specific competencies most critical for SMEs in Malaysia, particularly when considering the unique socio-economic landscape and entrepreneurial culture of the region (Zarif et al., 2021).

To address this gap, this paper seeks to explore the entrepreneurial competencies that are required for the success and sustainability of SMEs in Malaysia. Specifically, it will examine the intersection of personal traits and acquired skills, focusing on how these competencies can enhance business performance and contribute to long-term growth (Abdullah et al., 2022). By identifying key competencies that entrepreneurs need to develop, the paper aims to provide insights that can inform both policy makers and entrepreneurs themselves on how to better equip SME owners with the skills necessary to succeed.

The need for entrepreneurial education and training in Malaysia has been recognized by both the government and the private sector. Several initiatives, including the establishment of entrepreneurship training programs, have been introduced to help equip entrepreneurs with the necessary skills (Zhang & Liu, 2021; Lee & Lim, 2022). However, there is still much work to be done in tailoring these programs to address the specific needs of SMEs. This paper will therefore explore how a more targeted approach to entrepreneurship education and competency development can support the growth of SMEs in Malaysia (Chen & Yu, 2022).

The importance of entrepreneurial competencies in driving business performance in SMEs cannot be overstated. As SMEs in Malaysia continue to face evolving challenges, enhancing entrepreneurial competencies offers a practical and effective solution to achieving business success. This paper aims to contribute to the existing literature by investigating the relationship

between entrepreneurial competencies and business performance in the Malaysian context, providing actionable insights for policy makers, educators, and entrepreneurs alike. Through this investigation, it is hoped that a clearer understanding of the competencies required for SME success will be achieved, ultimately helping to enhance the competitiveness and sustainability of SMEs in Malaysia.

2. Literature Review

In the modern business environment, entrepreneurship has been widely recognized as a key driver of economic development and job creation, particularly in emerging economies like Malaysia. Small and Medium Enterprises (SMEs) are integral to the nation's economy, contributing significantly to GDP, employment, and innovation (Hashim, 2020; Suryana, 2021). However, despite their importance, Malaysian SMEs face a host of challenges, including financial constraints, market competition, and the need to adopt advanced technology (Nguyen et al., 2020; Lai & Lee, 2022). In this context, entrepreneurial competencies have been identified as crucial factors that determine the success and sustainability of SMEs. Entrepreneurial competencies encompass a range of skills, knowledge, attitudes, and behaviors that enable entrepreneurs to respond effectively to these challenges, innovate, and create competitive advantages (Koe et al., 2021; Cheung & Yip, 2022).

The role of entrepreneurial competencies in the success of SMEs has gained significant attention in recent academic literature. Scholars have emphasized that entrepreneurs must possess a combination of both technical and non-technical skills to thrive in competitive environments (Zarif et al., 2021). While technical competencies are necessary for the efficient operation of a business, non-technical competencies such as leadership, risk-taking, and innovation are equally important for adapting to external challenges and driving business growth (Ali et al., 2022; Grillo et al., 2021). This literature review explores the various dimensions of entrepreneurial competencies, their relationship to business performance, and the role of entrepreneurial education and training in enhancing these competencies in SMEs.

2.1 Entrepreneurial Competencies and SME Success

Entrepreneurial competencies are central to the performance and sustainability of small and medium-sized enterprises (SMEs). These competencies, which combine knowledge, skills, attitudes, and behaviors, empower entrepreneurs to identify opportunities, innovate, make informed decisions, and navigate the complexities of running a business (Koe et al., 2021; Sundah et al., 2020). Entrepreneurial competencies are widely considered as the most influential factors determining the success of an SME, as they enable entrepreneurs to respond to challenges and capitalize on opportunities in an ever-evolving business environment (Zarif et al., 2021).

Recent studies emphasize the critical importance of specific competencies such as innovation, leadership, and strategic thinking for business success (Ang et al., 2022; Sadiq et al., 2021). The ability to innovate and differentiate from competitors is frequently cited as one of the core competencies needed to drive business growth (Neslon & Memon, 2021). SMEs, particularly in emerging economies like Malaysia, face resource constraints that make innovation a competitive advantage (Lee & Lim, 2022). Entrepreneurs who possess the competency to innovate in processes, products, and services can differentiate their businesses and remain relevant in competitive markets (Suryana, 2021).

Moreover, the strategic competency is indispensable in developing a sustainable business model. Strategic thinking allows entrepreneurs to devise long-term goals and outline clear pathways to reach them (Zahra et al., 2022). By understanding market dynamics and effectively utilizing resources, strategically competent entrepreneurs ensure that their businesses are adaptable and resilient to market shifts (Sundah et al., 2020; Baporikar, 2020). A strong strategic vision fosters competitive advantage by enabling businesses to anticipate challenges and identify emerging opportunities (Verhees & Meijers, 2021).

2.2 Types of Entrepreneurial Competencies

The categorization of entrepreneurial competencies has evolved, with researchers identifying key dimensions that directly influence business performance. Man et al. (2008) proposed a framework that categorizes entrepreneurial competencies into conceptual, opportunity, relationship, organizing, strategic, and commitment competencies, each contributing to different aspects of business operations. Conceptual competencies, which encompass decision-making, problem-solving, and innovative thinking, are particularly essential for entrepreneurs in dynamic markets (Bird, 1995; Zahra et al., 2022). These competencies are crucial for adapting to changing business environments and generating creative solutions to complex problems (Cheung & Yip, 2022).

Opportunity competencies enable entrepreneurs to identify, assess, and capitalize on business opportunities that may arise within the market (Chandler & Hanks, 1994). This competency involves recognizing trends, spotting gaps in the market, and developing new products or services that meet customer needs (Baporikar, 2020). Opportunity recognition has been highlighted as one of the strongest predictors of success in SMEs, as it directly correlates with an entrepreneur's ability to innovate and exploit new ventures (Ali et al., 2021; Sun & Wang, 2022).

Relationship competencies are also highly significant for SMEs, particularly in the Malaysian context, where networking plays a crucial role in business operations (Ang et al., 2022). Entrepreneurs with strong relationship competencies can build networks with suppliers, customers, and other key stakeholders, which ultimately leads to increased access to resources and market opportunities (Lee & Lim, 2022; Grillo et al., 2021). This is especially important for SMEs, which often rely on collaborative partnerships to mitigate resource shortages and expand their market reach.

Another key competency, organizing competency, allows entrepreneurs to manage business operations effectively, ensuring that resources are optimally allocated to achieve business goals (Zhang & Liu, 2021). Organizational skills are crucial for managing finances, human resources, production processes, and technology. In SMEs, where the entrepreneur is often the central decision-maker, having strong organizing competencies is essential for maintaining operational efficiency (Khoo et al., 2021).

Commitment competency refers to the ability to persist in the face of setbacks and continue pursuing business goals with resilience and passion (Neslon & Memon, 2021). Entrepreneurs who exhibit high levels of commitment are more likely to overcome obstacles and push through periods of adversity, ensuring long-term business success (Sadiq et al., 2021). In Malaysia, where SMEs face significant challenges, commitment is particularly crucial in maintaining operations during periods of economic downturn or instability (Nguyen et al., 2020).

2.3 Role of Entrepreneurial Education and Training

While entrepreneurial competencies are often seen as inherent traits, many scholars argue that these competencies can be cultivated through education and training (Suryana, 2021; Khoo et al., 2021). Entrepreneurial education plays a pivotal role in equipping future entrepreneurs with the skills and mindset required for business success. Studies have shown that entrepreneurs who undergo formal education and training programs are more likely to succeed and exhibit higher levels of competence in key business areas (Chen & Yu, 2022; Zhang & Liu, 2021).

In Malaysia, the government has actively promoted entrepreneurship training programs aimed at enhancing the entrepreneurial skills of SME owners and workers. These programs focus on imparting both hard and soft skills, including strategic management, marketing, leadership, and financial management (Suryana, 2021). By improving the competency levels of entrepreneurs, these initiatives help SMEs overcome operational and market-related challenges (Verhees & Meijers, 2021).

Moreover, the integration of digital skills and technological competencies into entrepreneurship education has become a priority. Given the rapid digital transformation in Malaysia, entrepreneurs need to develop competencies in areas such as e-commerce, digital marketing, and data analytics (Khoo et al., 2021). Digital competencies are crucial for enhancing business performance in the digital economy, where online platforms are increasingly becoming the primary channel for business transactions (Zarif et al., 2021; Lee & Lim, 2022).

2.4 Cultural and Environmental Factors

The Malaysian entrepreneurial landscape is unique in that it is shaped by diverse cultural and socio-economic factors. Understanding these factors is essential for comprehending the competencies needed for SME success in the country. Malaysia's multi-ethnic and multi-cultural society presents both challenges and opportunities for entrepreneurs. Entrepreneurs in Malaysia must navigate a complex regulatory environment and adapt to different consumer behaviors across ethnic groups (Ali et al., 2022; Lai & Lee, 2022).

The business environment in Malaysia is also influenced by government policies aimed at supporting SME development. These policies focus on providing financial assistance, facilitating access to technology, and promoting innovation (Sadiq et al., 2021). However, despite these initiatives, many entrepreneurs face barriers such as limited access to funding, lack of managerial expertise, and the challenges of operating in a competitive global market (Zahra et al., 2022). To overcome these obstacles, entrepreneurs must possess competencies that go beyond technical expertise and include strategic vision, leadership, and risk management skills (Baporikar, 2020).

2.5 Challenges and Gaps in Entrepreneurial Competency Development

While the importance of entrepreneurial competencies is widely acknowledged, there are several challenges in their development. One of the primary challenges faced by SMEs in Malaysia is the lack of practical entrepreneurial education that addresses the real-world needs of business owners (Baporikar, 2020). Many entrepreneurs in Malaysia, especially those in rural areas, do not have access to high-quality entrepreneurship education that is tailored to their specific business contexts (Nguyen et al., 2020). As a result, these entrepreneurs may lack the necessary competencies in areas such as financial management, digital marketing, and strategic planning.

Another challenge is the unequal distribution of entrepreneurial competencies among different demographic groups. Studies have shown that female entrepreneurs, for instance, face distinct barriers to accessing training and educational opportunities, which limits their ability to develop critical competencies (Zizile & Tendai, 2018; Martin & Patel, 2022). Addressing these disparities through targeted education and support programs is crucial to ensuring that all entrepreneurs, regardless of gender or location, can develop the competencies needed for success (Ang et al., 2022).

Entrepreneurial competencies are essential for the success and sustainability of SMEs in Malaysia. Competencies such as innovation, strategic thinking, risk-taking, leadership, and relationship management play a critical role in enabling entrepreneurs to navigate challenges and seize opportunities in an increasingly complex business environment. While entrepreneurial competencies are essential, they are not innate and can be developed through education, training, and experiential learning. However, challenges remain in ensuring that all entrepreneurs have access to the necessary training and resources to develop these competencies. As the Malaysian SME sector continues to evolve, it is imperative for policymakers and educators to prioritize the development of these competencies to ensure that SMEs remain competitive and resilient in the global economy.

3. Existing Obstacles and Hurdles Faced by SMEs in Malaysia

The landscape for Small and Medium Enterprises (SMEs) in Malaysia continues to be fraught with challenges despite their undeniable importance to the nation's economy. As highlighted in the previous section, these challenges, ranging from limited access to finance to gaps in entrepreneurial education and workforce development, significantly hinder the ability of SMEs to thrive. In this discussion, we aim to delve deeper into the specific issues and challenges faced by Malaysian SMEs, focusing on the impact of these obstacles on their ability to develop the necessary entrepreneurial competencies for sustained success.

3.1 Lack of Access to Funding and Financial Support

Access to funding remains one of the most critical barriers to the growth and sustainability of SMEs in Malaysia. Despite various government initiatives aimed at supporting SME growth, such as financial aid programs and soft loans, many entrepreneurs still face significant challenges in obtaining the necessary capital to run and expand their businesses (Khoo et al., 2021). The lack of funding is often exacerbated by stringent lending requirements from financial institutions, such as the need for collateral and a strong credit history (Abdullah et al., 2022). For SMEs, which typically lack these financial guarantees, this becomes a significant roadblock to securing loans for innovation, expansion, and training programs necessary to build entrepreneurial competencies (Suryana, 2021).

Many SME owners in Malaysia are forced to rely on personal savings or informal sources of financing, which are often insufficient to meet their business needs. This limitation in financial resources not only restricts their ability to invest in new technologies and processes but also stifles innovation and hinders their competitive edge in the marketplace (Zarif et al., 2021; Lai & Lee, 2022). Entrepreneurs are thus left unable to acquire advanced entrepreneurial competencies such as digital marketing, strategic thinking, and risk management, all of which are necessary for thriving in today's competitive business environment (Sun & Wang, 2022).

Furthermore, the COVID-19 pandemic highlighted the vulnerabilities of SMEs, especially those in industries such as retail, hospitality, and travel, which were hit hard by the economic

slowdown. Despite government relief efforts, many SMEs still struggle to recover, as they face challenges in adapting to the new economic realities and gaining access to continued financial support (Khoo et al., 2021). This underscores the need for more accessible and sustainable financial assistance programs that can help SMEs enhance their entrepreneurial competencies, especially during periods of economic disruption.

3.2 Gaps in Entrepreneurial Education and Training

While the importance of entrepreneurial competencies is well-documented, one of the major challenges in Malaysia is the lack of comprehensive and practical entrepreneurial education. Many entrepreneurship programs available to SME owners are either overly theoretical or not sufficiently tailored to the unique challenges faced by different sectors (Sadiq et al., 2021). A key issue lies in the gap between academic knowledge and the real-world application of entrepreneurial skills. Entrepreneurs often find that the knowledge they acquire from formal education or short-term training programs is not applicable to the day-to-day running of their businesses, particularly in terms of strategic planning, financial management, and marketing (Baporikar, 2020; Suryana, 2021).

In addition to the lack of practical application, there is often insufficient focus on essential non-technical competencies, such as leadership, emotional intelligence, and communication skills. These competencies are crucial for fostering an entrepreneurial mindset, building strong teams, and developing relationships with stakeholders (Lee & Lim, 2022). The inadequacy of entrepreneurial education in addressing these soft skills further limits the ability of Malaysian entrepreneurs to build robust and adaptive business models (Verhees & Meijers, 2021).

Another critical challenge is the regional disparity in access to quality entrepreneurial education and training. While urban areas benefit from a greater availability of entrepreneurial programs, rural entrepreneurs often have limited access to training resources, resulting in an uneven development of entrepreneurial competencies across the country (Khoo et al., 2021). This geographic imbalance exacerbates the challenges faced by entrepreneurs in rural areas, particularly in adopting new technologies and business practices (Sundah et al., 2020). Therefore, bridging this gap through targeted initiatives that reach underrepresented entrepreneurs is essential to fostering a more inclusive entrepreneurial ecosystem.

3.3 Digital Transformation and Technological Competency Gaps

The increasing importance of digital transformation presents both opportunities and challenges for SMEs in Malaysia. Digitalization has been identified as a critical driver of business success, yet many SMEs in Malaysia continue to struggle with the adoption and effective implementation of digital technologies (Suryana, 2021; Khoo et al., 2021). One of the primary barriers is the lack of technical competencies among entrepreneurs and their workforce. While large corporations can afford to hire skilled professionals to implement digital solutions, SMEs often lack the resources to attract and retain tech talent, further exacerbating the digital divide between large businesses and SMEs (Ali et al., 2021).

The reluctance of SME owners to adopt digital technologies is also a result of their limited understanding of how such tools can improve business operations. Many entrepreneurs remain focused on traditional methods of conducting business, such as face-to-face transactions and manual processes, because they lack the confidence to transition to more complex digital platforms (Zhang & Liu, 2021; Ang et al., 2022). This digital gap limits their ability to enhance entrepreneurial competencies such as e-commerce, digital marketing, and data analytics, which

are increasingly essential for reaching new customers and improving operational efficiency (Zarif et al., 2021).

Additionally, digital adoption requires substantial financial investment, and many SMEs are unable to secure the funds necessary for acquiring digital tools or training their employees (Khoo et al., 2021). Despite government programs that promote digitalization, such as grants and tax incentives, the uptake of these initiatives has been slower than expected, particularly among small business owners who may not see immediate returns on their digital investments (Sadiq et al., 2021). This highlights the need for more accessible and flexible digital transformation programs that cater specifically to the needs of SMEs.

3.4 Limited Access to Skilled Labor and Workforce Development

The shortage of skilled labor continues to be a significant issue for SMEs in Malaysia, with many entrepreneurs reporting difficulty in hiring qualified employees for critical business functions. The lack of a highly skilled workforce hinders SMEs from achieving their business objectives and acquiring the necessary competencies to innovate and grow (Khoo et al., 2021). The issue of skills mismatch, where the available labor force does not possess the skills required by employers, is particularly pronounced in the SME sector, where the workforce is often made up of individuals with limited formal education or specialized training (Abdullah et al., 2022).

Furthermore, SMEs often struggle to compete with larger corporations for talent, as they are unable to offer the same level of salary, benefits, or career development opportunities. As a result, many SMEs are left to rely on less experienced employees, which limits their ability to develop core entrepreneurial competencies in areas such as financial management, marketing, and customer relations (Zahra et al., 2022). This problem is especially pronounced in industries such as manufacturing and technology, where specialized skills are in high demand (Liu & Wang, 2021).

Addressing the issue of skilled labor requires a concerted effort from both the public and private sectors. Policymakers must invest in education and training programs that are specifically designed to meet the needs of SMEs and align with the competencies required for business success (Khoo et al., 2021). Furthermore, SMEs themselves must recognize the importance of continuous workforce development and invest in upskilling their employees to build a more competent and competitive labor force (Ali et al., 2021).

3.5 Regulatory and Policy Barriers

Although the Malaysian government has introduced a range of initiatives aimed at supporting SMEs, regulatory and policy barriers remain a significant challenge. Entrepreneurs often find themselves navigating a complex web of rules and regulations, ranging from tax compliance to intellectual property protection, all of which can impede business operations (Sadiq et al., 2021). The bureaucratic red tape in Malaysia, coupled with the inconsistent enforcement of policies, creates an environment of uncertainty that hinders the growth of SMEs (Verhees & Meijers, 2021).

For example, the complexity of the tax system can be overwhelming for SME owners, particularly those with limited accounting knowledge. Entrepreneurs are often faced with the challenge of complying with tax regulations while trying to manage their business operations (Khoo et al., 2021). This regulatory burden diverts attention away from core business activities

and prevents entrepreneurs from focusing on developing the competencies necessary for innovation and growth.

Additionally, while government policies have focused on providing financial assistance and incentives for SMEs, these policies are often difficult to access due to unclear guidelines or bureaucratic hurdles (Zarif et al., 2021). Furthermore, the regional disparities in access to government resources and incentives create a situation where urban entrepreneurs are more likely to benefit from these policies compared to their rural counterparts (Lai & Lee, 2022). To address these challenges, there is a need for clearer, more streamlined policies that can be easily accessed by all SME owners, regardless of their geographic location.

3.6 Risk Aversion and Limited Entrepreneurial Mindset

A significant challenge for many SMEs in Malaysia is the risk-averse mindset of entrepreneurs. The fear of failure and the stigma attached to business failure often discourage entrepreneurs from taking the necessary risks to innovate and grow (Zhang & Liu, 2021; Lai & Lee, 2022). While risk-taking is a fundamental aspect of entrepreneurship, many Malaysian entrepreneurs remain focused on short-term survival rather than long-term growth, opting for conservative business strategies that limit their potential for expansion (Sadiq et al., 2021).

This risk aversion is also rooted in cultural factors, as failure is often seen as a personal shortcoming rather than an opportunity for learning and growth (Ang et al., 2022). In a society where success is highly valued, the fear of failure can be paralyzing, preventing entrepreneurs from taking the bold steps necessary to transform their businesses (Neslon & Memon, 2021). Encouraging a culture of calculated risk-taking and reframing failure as a valuable learning experience will be key to fostering a more resilient and innovative entrepreneurial mindset (Zahra et al., 2022).

The challenges faced by Malaysian SMEs are multifaceted and require comprehensive solutions that address the financial, educational, technological, and cultural barriers hindering their success. To foster a more resilient and competitive SME sector, policymakers and business leaders must work together to provide SMEs with the resources, training, and support they need to overcome these challenges and develop the entrepreneurial competencies essential for business growth and sustainability. By addressing these issues, Malaysia can unlock the full potential of its SME sector, driving economic development and enhancing its position in the global market.

4. Dissuasion Strategies for Addressing the Main Barriers to SME Growth

While Small and Medium Enterprises (SMEs) in Malaysia face a multitude of challenges that hinder their ability to thrive, there are several strategies and solutions that can help entrepreneurs overcome these barriers. Addressing the issues of limited access to finance, gaps in entrepreneurial education, digital transformation, workforce development, regulatory constraints, and risk aversion will require concerted efforts from both policymakers and entrepreneurs themselves. The following suggestions focus on overcoming these challenges to enable SMEs to develop the entrepreneurial competencies necessary for sustainable growth and success.

4.1 Enhancing Access to Financial Resources

Access to funding remains one of the most critical barriers for SMEs in Malaysia. To improve access to financial resources, it is essential for policymakers and financial institutions to work

together to create more inclusive financing options tailored to the unique needs of SMEs. One potential solution is the expansion of microfinancing programs that provide affordable loans with flexible repayment terms for small businesses, especially those in the early stages of development (Khoo et al., 2021; Lai & Lee, 2022). These programs should focus on supporting micro-enterprises and entrepreneurs who have limited collateral but possess high potential for growth.

Additionally, the introduction of venture capital and angel investor networks for early-stage entrepreneurs can provide alternative sources of funding. These investors are typically willing to take on higher risks in exchange for equity stakes, providing much-needed capital to innovators and startups (Sun & Wang, 2022; Baporikar, 2020). Developing platforms to connect SMEs with such investors can help diversify the sources of financing available to small businesses in Malaysia.

Financial literacy programs are also crucial to helping SME owners navigate the complex landscape of financing. By enhancing financial management competencies, entrepreneurs will be better equipped to secure loans, manage their finances, and make informed investment decisions (Nguyen et al., 2020; Grillo et al., 2021). Entrepreneurs should be encouraged to attend financial literacy workshops and use government-backed schemes that improve their creditworthiness and enhance their chances of securing funding (Sadiq et al., 2021).

4.2 Strengthening Entrepreneurial Education and Training

To overcome the gaps in entrepreneurial education and training, a significant shift is needed toward practical, hands-on learning that reflects the real-world challenges faced by SME owners. Universities and training institutions should collaborate with industry experts to offer customized entrepreneurship programs that address specific sectors or business needs (Zhang & Liu, 2021; Lai & Lee, 2022). These programs should combine theoretical knowledge with practical skills development, such as strategic planning, financial management, marketing, and leadership.

Entrepreneurs in Malaysia would benefit from mentorship programs that provide personalized guidance and support. Pairing experienced entrepreneurs with emerging business owners can help bridge the knowledge gap, allowing SME owners to learn from those who have successfully navigated similar challenges (Khoo et al., 2021; Sadiq et al., 2021). These mentorship programs should be structured to allow for continuous engagement, helping entrepreneurs overcome challenges and build long-term success.

Additionally, there should be a focus on lifelong learning for entrepreneurs. As the business environment evolves, entrepreneurs must continuously upgrade their skills. Policymakers can incentivize businesses to invest in workforce training through tax incentives or subsidized training programs, which will encourage the development of essential skills in both SME owners and their employees (Grillo et al., 2021; Lai & Lee, 2022). This approach will ensure that SMEs are not only equipped to handle current challenges but are also prepared for future disruptions in the market.

4.3 Promoting Digital Transformation and Technological Competency Development

To overcome the digital competency gaps, a holistic approach is required that addresses both the technical and cultural barriers to digital transformation. One key recommendation is to expand government initiatives that promote digital literacy and help SMEs transition to digital platforms. These initiatives could include subsidized access to digital tools and online training

programs in areas such as e-commerce, digital marketing, and data analytics (Zarif et al., 2021; Sun & Wang, 2022). Moreover, the government can offer financial incentives for SMEs that invest in digital tools, enabling them to become more competitive in the global market.

Public-private partnerships should be leveraged to provide SMEs with the resources and expertise required to implement digital transformation. For instance, technology companies can partner with government agencies to offer digital solutions and provide training to SMEs on how to leverage these tools to enhance operational efficiency (Khoo et al., 2021). Additionally, digital innovation hubs and incubators can be established to support the adoption of new technologies and foster collaboration among tech-savvy entrepreneurs (Baporikar, 2020; Lai & Lee, 2022).

Furthermore, to encourage a more rapid uptake of technology, digital coaching programs should be introduced, where SMEs can receive one-on-one support from experts to help them adopt new digital practices (Khoo et al., 2021). These programs could focus on areas such as website development, customer relationship management, and online sales strategies, enabling SMEs to improve their customer outreach and increase their market presence (Suryana, 2021). Digital transformation will not only improve the competencies of entrepreneurs but also help them stay competitive in an increasingly digital marketplace.

4.4 Addressing the Skilled Labor Shortage

The shortage of skilled labor is a persistent challenge for SMEs in Malaysia, but it can be mitigated through enhanced collaboration between industry and education sectors. There needs to be a focus on demand-driven training programs that are aligned with the skills required by SMEs, particularly in areas such as finance, technology, and marketing (Sadiq et al., 2021; Khoo et al., 2021). By creating closer links between educational institutions and SMEs, students can gain practical experience through internships and work placements, ensuring they are better prepared for the workforce.

SMEs must also invest in their employees by providing continuous learning opportunities. For example, companies can offer in-house training programs or partner with local educational institutions to provide upskilling opportunities for their workforce. By focusing on building a skilled labor force, SMEs can improve both their operational efficiency and their ability to innovate (Baporikar, 2020; Ang et al., 2022).

The government can also support SMEs by offering subsidies for employee training and by creating tax incentives for businesses that invest in workforce development. These efforts will not only help alleviate the skills shortage but also increase the overall competence of the workforce in line with the demands of modern business (Khoo et al., 2021; Lai & Lee, 2022).

4.5 Streamlining Regulatory Processes and Policy Support

To overcome the regulatory and policy-related challenges, the Malaysian government must focus on simplifying regulatory procedures for SMEs. A major issue identified by entrepreneurs is the complexity of navigating the country's regulatory landscape, particularly in areas such as tax compliance and business licensing (Khoo et al., 2021; Verhees & Meijers, 2021). Streamlining these processes and providing clearer guidelines will reduce the administrative burden on SMEs, allowing them to focus on building their competencies and growing their businesses.

Another critical measure is the enhancement of policy support for innovation and technology adoption. While Malaysia has introduced several initiatives aimed at digitalization, more support is needed to help SMEs integrate new technologies into their operations. The government can expand innovation grants and technology adoption programs to ensure that SMEs are equipped with the tools and knowledge they need to thrive in a digital economy (Zarif et al., 2021; Lai & Lee, 2022).

Moreover, regional disparities in access to resources and government support can be addressed by ensuring that policies are equally accessible to both urban and rural entrepreneurs (Sun & Wang, 2022). Policymakers should introduce measures that decentralize government support and ensure that rural SMEs receive the same level of assistance as those in urban areas. This will ensure that all SMEs, regardless of location, can benefit from government initiatives that aim to build entrepreneurial competencies.

4.6 Encouraging a Risk-Taking and Growth-Oriented Entrepreneurial Mindset

To foster a more entrepreneurial mindset among Malaysian SME owners, there is a need for a cultural shift that encourages calculated risk-taking and innovation. The stigma of failure in Malaysia often discourages entrepreneurs from pursuing bold initiatives that could drive business growth (Neslon & Memon, 2021; Lai & Lee, 2022). To counter this, the government and industry leaders can promote success stories of entrepreneurs who have taken risks and succeeded, demonstrating the positive outcomes that can arise from failure and persistence (Zhang & Liu, 2021).

Additionally, entrepreneurship education programs should include modules that focus on building resilience, emotional intelligence, and leadership skills. These skills are crucial for overcoming the setbacks that naturally come with entrepreneurship (Sadiq et al., 2021). By embedding these competencies into the training of entrepreneurs, SME owners will be better equipped to take calculated risks and manage the uncertainties associated with running a business (Verhees & Meijers, 2021).

Moreover, SMEs should be encouraged to diversify their business models and explore new market opportunities. This approach will not only allow businesses to mitigate risks but also promote long-term sustainability by enabling them to adapt to changing market dynamics (Baporikar, 2020; Ang et al., 2022). This diversification can be achieved through a combination of strategic planning and market research to identify emerging trends and consumer demands (Khoo et al., 2021).

The challenges faced by SMEs in Malaysia are significant, but they are not insurmountable. Through targeted efforts from policymakers, educational institutions, and entrepreneurs, these challenges can be overcome. Key recommendations include enhancing access to funding, strengthening entrepreneurial education, promoting digital transformation, addressing workforce skill gaps, streamlining regulatory processes, and encouraging a growth-oriented entrepreneurial mindset. By implementing these solutions, Malaysia can create a more supportive ecosystem for SMEs, enabling them to develop the entrepreneurial competencies necessary to succeed in the global marketplace.

5. Strategic Recommendations for Advancing SME Competencies and Business Performance

Small and Medium Enterprises (SMEs) in Malaysia face a diverse set of challenges that hinder their potential for growth and competitiveness. These challenges range from financial constraints and gaps in entrepreneurial education to issues surrounding digital transformation and workforce development. However, these obstacles are not insurmountable. By implementing a set of strategic recommendations, policymakers, financial institutions, and educational bodies can help address these challenges and enable SMEs to enhance their entrepreneurial competencies, ensuring long-term success and sustainability in an increasingly competitive global market. The following recommendations are designed to address the key issues identified in the earlier sections and provide actionable solutions to foster a thriving SME ecosystem in Malaysia.

5.1 Expanding Access to Finance and Financial Support

The limited access to finance remains a significant challenge for many SMEs in Malaysia, particularly for those in the early stages of business development. To overcome this issue, the Malaysian government and financial institutions must work together to increase access to both traditional and alternative financing options.

One key solution is to expand microfinancing programs aimed specifically at early-stage businesses and entrepreneurs with limited collateral. These programs should offer low-interest loans with flexible repayment terms to reduce the financial burden on small business owners. In addition, the government can enhance venture capital and angel investor networks to provide crucial funding for high-risk businesses, particularly those in emerging sectors such as technology and innovation. By connecting entrepreneurs with investors who are willing to take on greater risks, Malaysia can encourage more innovative ventures and promote long-term business growth (Khoo et al., 2021; Lai & Lee, 2022).

Additionally, crowdfunding platforms should be promoted as an alternative means of financing. By allowing businesses to raise capital from a wide pool of investors, crowdfunding offers a unique opportunity for SMEs to gain access to capital without the stringent requirements of traditional bank loans. The government can help support the growth of these platforms by introducing clearer regulations and tax incentives, making them more accessible to SMEs (Baporikar, 2020; Sadiq et al., 2021).

Financial literacy programs are also essential to improving access to finance. Educating entrepreneurs on how to manage business finances, understand loan structures, and evaluate investment opportunities can increase their ability to make informed financial decisions. Financial literacy programs should be made widely available, especially for entrepreneurs in rural areas, where access to resources may be more limited (Grillo et al., 2021; Lai & Lee, 2022).

5.2 Strengthening Entrepreneurial Education and Training

There are significant gaps in the availability and effectiveness of entrepreneurial education and training in Malaysia, which hinder the development of essential competencies among SME owners. To address this issue, the following recommendations should be considered:

Develop sector-specific training programs: Universities and educational institutions should collaborate closely with SMEs and industry experts to create customized entrepreneurship

training programs that address the unique challenges of different sectors. These programs should be practical and hands-on, focusing on areas such as strategic planning, digital entrepreneurship, and financial management. Sector-specific training ensures that entrepreneurs acquire the skills and knowledge most relevant to their business needs, thereby enhancing their ability to innovate and grow (Zhang & Liu, 2021; Lai & Lee, 2022).

Promote mentorship programs: In addition to formal training, establishing mentorship programs is crucial for providing entrepreneurs with personalized guidance. Experienced entrepreneurs and industry leaders can offer valuable insights into running a successful business, managing risks, and overcoming common obstacles. These programs should focus not only on technical skills but also on soft skills such as leadership, emotional intelligence, and decision-making (Khoo et al., 2021; Sadiq et al., 2021). Mentorship fosters a deeper understanding of the real-world challenges faced by SMEs and can significantly enhance the competencies of entrepreneurs.

Encourage lifelong learning and upskilling: Entrepreneurship is a dynamic field, and entrepreneurs need to continuously adapt to changing business environments. Therefore, lifelong learning should be encouraged. The government should introduce incentives for businesses that invest in employee training, as well as offer subsidies for training programs focused on innovation, digital skills, and market research. These initiatives would enable SMEs to develop a more competent workforce capable of meeting the demands of modern business operations (Sun & Wang, 2022; Lai & Lee, 2022).

5.3 Promoting Digital Transformation for SMEs

The lack of digital adoption remains a significant challenge for SMEs in Malaysia, particularly those that still rely on traditional business practices. To overcome this issue, the following steps should be taken:

Provide digital adoption subsidies and support: The government should offer financial incentives to SMEs that invest in digital tools and technologies, such as enterprise resource planning systems (ERP), customer relationship management software (CRM), and e-commerce platforms. These subsidies should be targeted at helping SMEs digitize their operations, enhance customer engagement, and improve their overall business efficiency (Zarif et al., 2021; Khoo et al., 2021). Additionally, the government can partner with technology companies to offer SMEs discounted or subsidized access to software solutions, further easing the financial burden of digital transformation.

Launch digital coaching and training programs: Many SME owners lack the knowledge and skills necessary to adopt and integrate digital technologies into their businesses. Digital coaching programs can provide one-on-one support to entrepreneurs, guiding them through the process of adopting digital tools. These programs should focus on practical aspects of digital transformation, such as how to set up an e-commerce platform, leverage social media marketing, and use data analytics to make informed business decisions (Suryana, 2021; Baporikar, 2020). By providing tailored coaching, entrepreneurs will be better equipped to embrace technology and improve their business performance.

Promote digital literacy across all sectors: Digital literacy should be a key component of entrepreneurial education in Malaysia. Educational institutions should introduce digital literacy courses to help entrepreneurs understand the fundamental concepts of technology and its application in business. Additionally, SMEs should be encouraged to invest in digital skills

training for their employees to ensure that their workforce is equipped with the skills necessary to operate digital tools effectively (Sadiq et al., 2021; Lai & Lee, 2022).

5.4 Addressing Labor Shortages and Developing a Skilled Workforce

The shortage of skilled labor remains a significant issue for SMEs, particularly in sectors that require specialized knowledge and technical skills. To address this challenge, the following recommendations should be considered:

Collaborate with educational institutions: SMEs should collaborate with universities, vocational schools, and training centers to create skills development programs that are aligned with industry needs. By working together, these institutions can offer tailored training that focuses on the specific skills required by SMEs, such as financial management, digital marketing, and product innovation. These programs should include both theoretical knowledge and hands-on experience to ensure that graduates are ready to meet the needs of SMEs (Ali et al., 2021; Lai & Lee, 2022).

Invest in workforce upskilling and reskilling: SMEs should invest in continuous training programs to improve the competencies of their employees. This includes both upskilling and reskilling initiatives, which will help workers develop the skills needed to perform effectively in a rapidly changing business environment. Government initiatives can offer subsidies or tax incentives for SMEs that invest in workforce training, thereby encouraging more businesses to prioritize the development of their human capital (Khoo et al., 2021; Lai & Lee, 2022).

Promote apprenticeships and internships: Introducing apprenticeship programs and internships can help SMEs address the shortage of skilled labor by providing young people with hands-on training and experience. These programs can be particularly effective in connecting educational institutions with businesses and offering students real-world exposure to the skills required by SMEs. SMEs can also benefit from these programs by gaining access to a pool of talented workers who are already familiar with their industry (Sadiq et al., 2021; Grillo et al., 2021).

5.5 Simplifying Regulatory Processes and Policy Support

The complexity of regulatory frameworks remains a significant barrier for SMEs in Malaysia. To ease the burden on entrepreneurs, the following steps should be taken:

5.5.1 Simplify business registration and tax processes

The Malaysian government should work to simplify the procedures involved in business registration, tax compliance, and licensing. This can be achieved by digitizing and streamlining processes, reducing the amount of paperwork required, and providing clear and accessible guidelines for SME owners (Khoo et al., 2021; Verhees & Meijers, 2021). By simplifying these processes, the government can reduce the administrative burden on SMEs, allowing entrepreneurs to focus on their core business operations.

5.5.2 Improve access to government resources and incentives

SMEs often face difficulties in accessing government support programs due to a lack of information and unclear guidelines. To address this, the government should create a centralized portal where SMEs can easily access information about available resources, incentives, and subsidies. This portal should provide detailed instructions on how to apply for government programs, making it easier for SMEs to take advantage of support available to them (Zarif et al., 2021; Lai & Lee, 2022).

5.5.3 Promote regional equity in policy support

Policymakers should ensure that rural SMEs have equal access to government resources and programs as their urban counterparts. This can be achieved by decentralizing the implementation of support programs and offering targeted initiatives to help rural entrepreneurs overcome the unique challenges they face, such as limited infrastructure and access to skilled labor (Sadiq et al., 2021; Sun & Wang, 2022).

5.6 Encouraging Risk-Taking and an Entrepreneurial Mindset

To foster a more entrepreneurial and growth-oriented mindset among SME owners, the following actions should be taken:

5.6.1 Promote success stories and learnings from failure

The government and private sector should promote entrepreneurial success stories that demonstrate the rewards of risk-taking and innovation. These stories can inspire aspiring entrepreneurs and help shift the cultural perception of failure, encouraging entrepreneurs to view setbacks as opportunities for learning and growth (Ang et al., 2022; Zhang & Liu, 2021). Media campaigns and public forums can be used to highlight the journeys of successful entrepreneurs who have overcome significant challenges.

5.6.2 Incorporate risk management and resilience into entrepreneurial education

Risk management and resilience training should be incorporated into entrepreneurship curricula to help entrepreneurs understand the importance of calculated risk-taking. By learning how to assess and manage risks, entrepreneurs will be better equipped to make bold decisions that drive business growth (Zarif et al., 2021; Lai & Lee, 2022).

Create a supportive ecosystem for innovation: Policymakers should foster a supportive environment for innovation by encouraging SMEs to experiment with new business models and technologies. This can be achieved through innovation grants, tax incentives, and the creation of innovation hubs where SMEs can access resources and collaborate with other innovators (Sadiq et al., 2021; Grillo et al., 2021). By promoting a culture of calculated risk-taking, SMEs will be more likely to explore new market opportunities and innovate to meet the changing needs of consumers.

6. Conclusion

In conclusion, Small and Medium Enterprises (SMEs) are the cornerstone of Malaysia's economy, playing a vital role in job creation, innovation, and contributing significantly to the nation's GDP. However, despite their economic importance, SMEs face multiple challenges that hinder their ability to grow and sustain their competitive edge. These obstacles include limited access to finance, gaps in entrepreneurial education and training, technological adoption barriers, workforce shortages, and complex regulatory environments. Addressing these issues is crucial for enhancing the performance and sustainability of SMEs.

A key factor in overcoming these challenges is the development of entrepreneurial competencies, which encompass a combination of technical knowledge, strategic thinking, innovation, leadership, and risk management. Entrepreneurs need these competencies to effectively respond to market challenges and seize new opportunities. However, these competencies are not innate and must be cultivated through targeted education and practical training. Despite the availability of various entrepreneurship programs in Malaysia, many still

fail to provide the necessary practical skills and real-world applications required to run and grow a business.

To support SMEs, a comprehensive strategy is required. Policymakers should prioritize improving access to financial resources, creating more tailored funding options, and promoting financial literacy programs for entrepreneurs. In addition, entrepreneurial education must focus on hands-on skills development, such as digital marketing, strategic planning, and financial management. Encouraging the digital transformation of SMEs, particularly through government-backed initiatives and subsidies, is also critical to boosting their competitiveness.

Furthermore, fostering a growth-oriented entrepreneurial mindset is essential. This involves encouraging risk-taking, supporting innovation, and promoting resilience in the face of setbacks. By addressing these challenges and providing the right support systems, Malaysia can unlock the full potential of its SME sector, ensuring its long-term success and contributing to the overall economic development of the country.

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Conflict of Interest Statement

The authors declare that there is no conflict of interest regarding the publication of this study.

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