The Issues and Development of Critical Success
Factors for the SME Success in a Developing Country

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Abstract: This review explores Critical Success Factors (CSFs) for enterprise success in Small and Medium-sized Enterprises (SMEs). The effect of critical success factors is complex as they are interrelated and circumstantial. Empirical evidence regarding their outcomes remains contradictory and inconclusive. Nevertheless, it is relevant to make further research the factors for SMEs as SMEs are considered the engine of growth especially in GDP, employment and exports of a country. Furthermore, such research will shed more lights the understandings and insights of the multifaceted issues and solution for enterprises success. Resource-constraint SMEs need to focus on CSFs to build competitive advantage to stay competitive amidst the challenges from and globalisation and liberalisation. From this literature review, it is revealed that there are around leadership and management, intellectual capital, organisational innovation, entrepreneurial competence, entrepreneurial characteristics, human resources, motivation and market orientation which are essential for sustained enterprise success, it is necessary to build resources as such leadership style, entrepreneurial competence, organisational innovation, image and reputation and organisational culture.

Key words: Critical success factors, intangibles, enterprise success, entrepreneurship, SMEs

INTRODUCTION

Definition of critical success factors: Dickinson et al. (1984) stress that critical success factors can be in the form of events, circumstances, conditions or activities that require special attention of entrepreneurs because such well-thought through factors can influence success either positively or negatively. Critical success factors provide a comprehensive approach, focus on criticality, clarify assumption, induce flexibility are neutral and aid divergent thought. Katz and Green (2009) assert that critical success factors can be processes, benchmarks or components of the business that are essential for the business to be profitable and competitive in this market for the organisation. SMEs should pay special and continual attention on the few key managerial and enterprise areas including the current operating activities where things must go right for the business to thrive, bring about high performance and future enterprise success (Boytton and Zmud, 1984; Daft, 1991; Rockart, 1979).

Richter and Kenter (2000) content that critical success factor, also known as key success factors, of entrepreneurship and small businesses are complex and multifaceted because research revealed contradictory or inconclusive findings on their outcomes.

Background of SMEs: SMEs continue to grab attention of the national leaders, practitioners and researchers as SMEs are considered the building blocks of Nation’s economic growth. According to the latest OECD (2010)’s Report, SMEs represent 99% share of total establishments, 67% of employment and over 50% of value added Gross Domestic Product (GDP) across the grouping. The earliest Drucker’s thinking is that well-managed and entrepreneurial SMEs are the likeliest generator of employment and economic success (Bones, 2007). Aronsson (2004) reported David Birch’s in 1979 landmark findings that new and small businesses create the lion’s share of new jobs, accounting for 82% of the new jobs created in the economy from 1969-1976, a pattern has been even since repeated ever since (Spinelli and Adans, 2012; Timmons and Spinelli, 2004). This landmark finding have attracted the attentions of governments of the day to spur the development of gazelle high growth SMEs and harness the power of small to drive job creations.

With globalisation and liberalisation, the business terrain is heading into steeper and more challenging environments. In terms of region integration, Malaysian SMEs are the challenges of ASEAN Policy Blueprint which calls for a single-market and production-base

Corresponding Author: Hee Song Ng, School of Management, Universiti Sains Malaysia, 11800 USM, Pulau Pinang, Malaysia
ASEAN Economic Community by 2015 (ASEAN, 2008). To succeed in competition, SMEs should enhance operational efficiency and competitiveness. They need a good self-commitment and motivating the workforce (Fink et al., 2008) but also professional management for organisational performance (Charan et al., 1980; Daily and Dalton, 1992; Dollinger, 1984).

In Malaysia, SMEs are an integral part of the economy which registers GDP growth of 5.4% in the second Quarter of 2012 and forecasts GDP growth 4.9 and 5.4% in 2012 and 2013, respectively. The DOSM Census (2011) revealed that Malaysian SMEs comprise 97.3% (645,136) of total establishments (662,393), employ 56% of the workforce and generate 32.5% of the total value added to GDP and contribute 19% of exports. SMEs have grown in tandem with the economy but SME growth is consistently higher 6.8% than overall GDP growth of 4.5% during 2004-2010 period (NSDC, 2010, 2012). At the national level, SME developments have been integrated into the Industrial Masterplan (2006-2015), the 11th Budget, First, Malaysia Plan (1966-1970) through Ninth Malaysia Plan (2006-2001) to Tenth Malaysia Plan (2011-2015) (Ruslan, 2009; Hashim, 2011; NSDC, 2006, 2007, Tenth Malaysia Plan, 2011).

Malaysia government is in constant drive to support SME sector through the setting up of National SME Development Council and SME Corp Malaysia. Malaysia government has spent a total of RM26 billion in SME development programmes, representing about 11.6% of the total development expenditure during the Ninth Malaysia Plan period (2006-2010) (NSDC, 2012). The launch of SME Masterplan (2010-2012) signifies Malaysia government’s desire to comprehensively develop SMEs with aecihicin a developed nation by 2020. The main three objectives are: To increase SME contribution to GDP from 32% in 2010 to 41%, increase the employment share from 59-62% and increase the export share from 19-25% by 2020. The ultimate goal of the Masterplan is to create globally competitive SMEs through innovation-led and productivity-driven growths for wealth creation and social well-being of the nation (MPC, 2012). To make more contribution, SMEs should grow to become Large Enterprises (LEs) and Iwork toward listing on the Malaysian stock exchange and joining the economic mainstream of nation-building (Hamzah, 2012).

**Building resources**: Firm resources derived from critical success factors should be nurtured and harnessed to the full potential in order to ensure firm success (Barney, 1991; Olavarreta and Friedmann, 1999. Dollinger, 2003 then summarises these resources as PROFIT for business performance:

- P (Physical); tangible property the firm used in product and administration
- R (Reputational); perception that people in the firm’s environment have of the company
- O (Organisational); the firm structure, procedures, routines and systems
- F (Financial); represent money assets
- I (Intellectual and human); include the knowledge, training and experience of the entrepreneurs and his or her team of employers and managers
- T (Technological); are made up of processes systems or physical transformations including labs, research and development facilitates and testing and quality control technologies

**Current state of SME achievement**: However, despite the massive support from the government, the progress made since the past years is marginal. Looking at the yearly trend and comparison from the NSDC Annual Reports of 2005-2010, there seem no significant increase in GDP contribution, employment generation, total export and value-added growth as showed in Table 1.

**Literature review**

**Issues and challenges of Malaysian SMEs**: According to Salleh and Ndeubisi (2006), the main challenges facing SMEs are the low level of technological capabilities, limited skilled human capital resources, low level of technology and ICT penetration, low level of research and development, substantial orientation toward domestic markets, high level of international competition (i.e., China and India), high level of bureaucracy in government agencies and internal sourcing of funds. Shah and Ali (2010) highlighted that entrepreneurs face obstacles in financial difficulty, shortage of experts, difficulty in acquiring raw materials, insufficient and inappropriate sites, building, marketing of products, competition, management and technology.

<table>
<thead>
<tr>
<th>Table 1: SME Contribution to Malaysia Economy (NSDC, 2010)</th>
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<tr>
<td>Key Indicators (%)</td>
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<tr>
<td>Contribution of SMEs to GDP</td>
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<td>Employment share</td>
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<td>Export share</td>
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<td>Value added growth of SME</td>
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Ong et al. (2010a, b) reported five major fundamental problems in Malaysian SMEs:

- The quality of SME owner managers
- Problems with government assistance programs
- The slow adoption of modern technology
- The lack of competitiveness of SMEs
- The definitions of SMEs

Federation of Malaysian Manufacturers (FMM, 2008) described the key issues and challenges faced by Malaysian SMEs as access to finance, globalisation and liberalisation, embracing new technologies, productivity improvement, information awareness, initiatives to enhance SME performance, financing start-ups, market access, improving information awareness and deepening industrial linkages.

Table 2 are the key finding for the various authors and the problem descriptions.

**Lessons learned from business failure**: Business failure is equally important as business success as the former serves as learning lessons and hand-on experiences for new aspiring entrepreneurs who venture into SME business without making serious trial and error mistakes. The attrition rate is still very high in Malaysia context. Shah and Ali (2011) state that the failure rate among small businesses is rather high in Malaysia and about 3.5% of new businesses fail within 2 years and 54% shut down within 4 years. Khoo (2010) highlights 10% of these start-ups survived beyond the 10 years mark and 79,310 businesses discontinued in Malaysia during the year 2002 citing inability to cope with the transition from an entrepreneurial style of management to an organised, professionally managed workforce. Osborne (1993) highlight that 90% of start-up businesses in the USA close their doors within 10 year. Of those that survive, many are unable to spur sustained growth and profit. Smalibone (1990), business failures rate are high, i.e., 32-43% by 2.5 years after start-ups which is similar to national failure rates.

According to Griffin (2012), business failure can be attributed to four factors; namely, managerial incompetence or inexperience, neglect, weak control systems and insufficient capitals. Smallbone (1990) stated that reasons are due to demand deficiency, lack of motivation, lack of ability needed to run a successful business, weak and ill-defined business concept and lack of the soft skills and commitment to deliver. Watson and Everett (1993) highlight that around 28% of business start-ups ended in failure within 5 years if failure is defined as discontinuance for any reason did not make a go of it, prevent further losses or bankruptcies.

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<td>Globalisation/liberalisation</td>
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<td>Export penetration</td>
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<td>Access to marketing, constraint and knowledge</td>
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<td>Subcontracting</td>
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<td>Competition or low market demand</td>
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<td>Skilled labour of skilled workforce</td>
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<td>Training, HR Dev, Tech programme</td>
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<td>Access to finance, fund, credit, cost</td>
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<td>IT/ICT</td>
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<td>Government assistance, bureaucracy and policy</td>
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<td>Economic policy, access to advisory services</td>
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<td>Raw material cost</td>
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<td>Land, building, sites, infrastructure</td>
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<td>Productivity and performance</td>
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<td>Transportation costs</td>
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<td>Definition of SMEs</td>
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<td>Quality</td>
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<td>Recession</td>
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<td>Global sourcing</td>
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<td>Intellectual property and bankruptcy issue</td>
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<td>Legal issues</td>
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<td>Product branding</td>
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Ahmad and Seet (2009), attribute to business failure to ineffective behaviours and competencies of founder-owners in ventures. Haswell and Holmès (1989) attribute business failures to management inadequacy, inexperience, incompetence, efficiency as well as deficient or no accounting records. Ptterson et al. (1983) state that the major cause of small business failures is a lack of management expertise and business failures can be improved by management education. Jennings and Beaver (1995) stress that root cause of small business failure is almost invariably a lack of management attention to strategic issues, poor decision making and inappropriate action.

Ropega (2011) highlights business failure is due to incompetence in the management of crisis situation, remedial and identification of future crises. Gaskill et al. (1993) state business failure is associated with poor performance and inefficiencies of four factors; namely, managerial and planning functions, vendor relations, competitive environment and premature overexpanionn but suggest that this should be viewed in the context of dynamic operating environmental characteristics that permeate throughout organisation.

**Survey and report findings:** The recently-released SME Masterplan reveals that based on analysis of findings from World Bank Productivity and Investment Climate survey, there are six performance levers which influence the performance of Malaysian SMEs, namely:

- Innovation and technology adoption
- Human capital development
- Access to financing
- Market access
- Legal and regulatory environment
- Infrastructure (NSDC, 2012)

According to the training schedule, published by Ministry of Human Resources, the critical success factors for Taiwan SMEs are: Leadership and management, crisis and risk management, systems and implementation, information and technology, perseverance and winning spirit and innovation and creativity (MHR, 2012). As cited in the Central Bank of Malaysia, the key factors for the successful development and implementation of SME policies and programmes in Taiwan are: One Ministry and Agency coordinating the implementation of SME policies, existence of structured guidance and assistance avenues and commitment to training (Central Bank of Malaysia, 2003).

In the survey on the economic situation in Malaysia for the 1st half of 2012, ACCCIM (2012) reported that survey findings on 374 SMEs that the most important factors affecting business performance are: Increase in operating cost and price of raw materials (42%), government policies (39%), manpower shortage (35%) and domestic competition (34%). Similarly in the 2nd half of 2010, ACCCIM (2011) reported that survey findings on 265 SMEs with different ranking of factors and firm percentage, namely, domestic competition (43%), government policies (43%), increase in operating cost and prices of raw material (34%) and manpower shortage (34%).

Central Bank of Malaysia (2003) made case study based on successful SMEs with 10 years of financial performance and track records, the key success factors for Malaysian SMEs are: Sound management capability and integrity, sound business culture and entrepreneurial spirit; prudent financial management; high quality product and services; good programme for human resources development; strong support from financial institutions in terms of leading and advisory services and strong marketing strategies including good network with suppliers.

Japan’s Central Bank of Malaysia (2003) state that for Japanese SMEs are: Structured approach to develop SMEs; one ministry and agency overseeing the development of SMEs; SMEs close relationship with the local chamber of commerce; strong commitment to training; greater acceptance to technology; experience counts and work culture.

Central Bank of Malaysia (2003) KSFs for German SMEs are: Well defined roles of ministries and private sector; SME friendly legislation; active role and participation of chambers; structured training and accreditations system; education system that inculcates the spirit of entrepreneurship and well-developed research and development infrastructure; free flow of information and market-driven funding assistance.

In the Ernst and Young’s survey on leading practices of fast growth entrepreneurs in Malaysia where 116 Malaysian entrepreneurs were asked to provide their view on key success factors and percentage of firms, the results indicate that the key success factors are: Top management vision (72%), disciplined marketing practices (66%), personal beliefs and dedication (61%), financial stability/backing (54%), dynamic marketing conditions (54%), unique products/services (51%) and family commitment and support (32%).

In the latest third quarter 2010 survey on SMEs conducted by SME Corp in Nov/Dec, 2010 with total respondents of 2,530 SMEs covering all sub-sectors and regions, the factors of cost of financing, economic policy uncertainty and macro-economic instability have been
cited to affect SMEs performance in Malaysia. And in term of prospects, about 99.6% of the respondents remained optimistic on the business outlook on the 6 months ahead despite an environment of rising business costs, 64% have projected a positive outlook and 11% saw opportunities in the next 6 months.

Department of Trade and Industry, UK report (2001) states that CSFs are relationships; knowledge; leadership and communication; culture and values; reputation and trust; skills and competencies and process and systems.

**Critical Success factors for enterprise success:** The following are the literature review of CSFs which are essential for predicting the future success of SMEs. From the analysis, CSFs are multifaceted and circumstantial (Table 3).

<table>
<thead>
<tr>
<th>Authors (year)</th>
<th>Significant findings</th>
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<tbody>
<tr>
<td>Islam et al. (2011)</td>
<td>The characteristic of entrepreneur is found to be a significant factor for business success of SMEs in Bangladesh. And duration of organisation operated and gender has significant effect toward business success of SMEs.</td>
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<tr>
<td>Philip (2011)</td>
<td>The most significant factors affecting business success are products and services, the way of doing business, management knowledge and external environment.</td>
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<tr>
<td>Chittibhawan et al. (2011)</td>
<td>The most significant factors affecting business success of SMEs in Thailand were SMEs characteristics, customer and market, the way of doing business, resources and finance and external environment.</td>
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<tr>
<td>Hung et al. (2011)</td>
<td>Six key success factors are networking, product, ability to focus on market, customer, supportive management team and strong leadership. Government support programme is not significant.</td>
</tr>
<tr>
<td>Chowla et al. (2010)</td>
<td>In China, Mexico and US, the common critical success factors are marketing effort and competitive forces but in China, financial needs and location are also the factors. Also, a lack of support is found for a life cycle effect on the importance of the critical success factors.</td>
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<tr>
<td>Lussier and Halabi (2010)</td>
<td>Results support the Lussier 15-variable business success versus failure model's validity in Chile.</td>
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<tr>
<td>Al-Mahrouq (2019)</td>
<td>The five success factors are: Technical procedures and technology, structure of the firm, financial structure, marketing and productivity and human resources structure.</td>
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<tr>
<td>Reijonen and Kempula (2010)</td>
<td>Market orientation (Customer orientation, human resources and market intelligence) are regarded as important success factors in SMEs.</td>
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<tr>
<td>Tuan and Yoshi (2009)</td>
<td>Ownership, firm size, firm age, new product introduction strategy and competition intensity are significant factors for the growth of manufacturing SMEs.</td>
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<tr>
<td>Barba-Sanchez and Martinez-Ruiz (2009)</td>
<td>The factor that is whether or not the entrepreneur has been entrepreneurs before. Secondly, entrepreneurial motivation has non-zero effect on a firm's success although it does not determine if a company will success or fail.</td>
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<tr>
<td>St-Jean et al. (2008)</td>
<td>Management's motivation for growth was an important element and this motivation changed over time, being influenced by both success and problems associated with actual growth.</td>
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<tr>
<td>Coy et al. (2007)</td>
<td>Critical success factors are working hard and for long hours, customer service, product quality, attention to customer needs, communication skills, interpersonal skills and business connection.</td>
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<tr>
<td>Kessler (2007)</td>
<td>In Australia, success factors are environment (Networks, role models) and process (Fulfillment of expectations, start-up failure consideration, team start-up, start-up size and small target group strategy and specifications strategy.</td>
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<tr>
<td>Abu Bakar</td>
<td>Firstly, this research found some significant differences between biotechnology and non-biotechnology. Secondly, organisational structure, enterprise image, internal and external networking, backward integration strategy and innovation activities are factor significantly impact the success of Malaysian biotechnology SMEs. Thirdly, organic organisational structure and strong image as having particularly strong influences on enterprise success when the intensity of competition is high.</td>
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<tr>
<td>Rose et al. (2006)</td>
<td>Significant relationship between venture growth and entrepreneurs with high personal initiative, focused on specific areas within operations, finance, marketing and human resources.</td>
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<td>Aidin and Mackiewicz (2006)</td>
<td>SME's owner's human capital (Education) matters, growth expectations are positively related to exporting. Factors which perceived as main business barriers are not necessarily those which are associated with reduced growth expectations.</td>
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<td>Hashim (2005a)</td>
<td>There will be significant relationship between entrepreneurial characteristics, organisational context and external environment and SMEs' success.</td>
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<td>Junfar</td>
<td>Sources of capital/liability and debt management, project performance, relationship with those in authority and project based relationship and customer commitment are positively significant to firm performance.</td>
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<tr>
<td>Nienwenhuisen and Kroon (2003)</td>
<td>Important success factors of entrepreneurs are leadership, the knowledge and skills of the applicant, market orientation, Kroon financial insight and management, creativity and innovation and risk orientation.</td>
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<tr>
<td>Ghosh et al. (2001)</td>
<td>KSFs are: Strong market orientation and capability; Effective management-management commitment and support, and organisational capability and management cohesiveness, access to broad base support and resources (i.e., Networking).</td>
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<tr>
<td>Hashim et al. (2001)</td>
<td>Firm characteristics and varying pattern of competitive strategies are significant Environment is negative related to business performance.</td>
</tr>
<tr>
<td>Warren and Hutchinson (2000)</td>
<td>Success factors are external financing and strength of partnering based on respect and trust, context-bound strategy. The relationship between planning and success is dependent on the cultural context. In Germany, planning had a positive influence on success, while this relationship was negative in Ireland.</td>
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<tr>
<td>Rauch et al. (2000)</td>
<td>People related issues are more emphasised than those of structure and technology; business founder's management skills, customer focus and resource creation are more important than their technical skills and the case companies show more concern for soft attitudes, skills and operating methods than for hard equipment.</td>
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DISCUSSION

Richter and Kemter (2000) assert that key success factors of small businesses are complex and multifaceted because analysis of the critical success factors generate different outcomes. They proposed the profit-personality factors of goal-orientation in business. Profit factor is connected with the situational factors, i.e., technology, organisational structure and the dynamics of the market whereas, personality factor is related to the activity and health of the business owner himself. Katz and Green (2009) identity critical success factors that give greatest chance of business are outside help (from government institutions, professional associations, successful entrepreneurs, for-profit expert) and entrepreneurial experience (from education, working in industry or market, entrepreneurial/managerial competencies, social or networking skills).

Churchill and Lewis (1983) state key management factors related to companies: Financial resource; personnel resource; system resources and business resources. Key management factors related to owners’ goals; owner’s operating ability; owner’s managerial ability and owner’s strategic ability. Peters and Waterman states five principles for small companies are: Success builds on first principles; achieve productivity through People; the management role; keep things simple; become simultaneously loose and tight.

Areas of focus and development: Looking at the diverse factors influencing small firm performance, there is a need to consider and focus only on critical success factors for organisational performance. These factors were re-classified into 12 categories of variables for discussion purposes.

- Leadership and management; management team strong management, leadership, common entrepreneurs, professional advice, management know-how, financial insight and management and management roles (Ireland and Hitt, 2005; Rowe, 2001; Sadler-Smith et al., 2003; Yan et al., 2008)
- Intellectual Capital-human capital, relational capital, organisational capital, good relations with customers, relationship, social skills, human capital, networking, business network, experience, prior experience in business, industry experience, self-employment experience and organisational capital (Camison and Villar-Lopez, 2010; Mertins et al., 2009; Ngah and Ibrahim, 2009; Reynoso, 2008; St-Pierre and Audret, 2011)
- Organisational innovation; innovation, operating methods, ability to adopt new technology, innovation and creativity, maintaining simplicity and becoming simultaneously loose and tight (Bones, 2007; Chuang, 2005; Damanpour et al., 2009; OECD, 1982; Parsons, 1985; Tan and Nasurdin, 2010)
- Organisational competence; entrepreneurial competences, organisation context, human resource competence, guidance and assistance avenues, operation competence, financial competence, skills and competences, knowledge, planning skills, budget skills, owner ability, ability to learn and ability to compete (Ahmad et al., 2010; Amit and Schoemaker, 1993; Man et al., 2008; Prahalad and Hamel, 1990; Stalk et al., 1992)
- Entrepreneur characteristics; personal qualities, hard working, dedication, interpersonal skills, personal characteristics, personal traits, owner goals and owner orientations (Dess and Lumpkin, 2005; Hashim et al., 2001; Lumpkin and Dess, 1996; Sandberg and Hofer, 1987)
Human resources; education, education program, owner education, human resources, staffing, training, and attitudes (Akhouri and Sharma, 2009; Becker and Gerhart, 1996; Castrogiovanni et al., 2011; Delery and Doty, 1996; Hornsby and Kuratko, 1990; Osman et al., 2011; Urbano and Yordanova, 2008)

Motivation; necessity, asymmetry, reciprocity, commitment, need for achievement, fulfilment start-up, personal initiatives and entrepreneurial spirit (Hofer and Sandberg, 1987; Kuratko et al., 1997; McCleland, 1965; Reijonen and Komppula, 2007; Stefanovic et al., 2010)

Market orientation; intelligence, customer relations, competition intensity, customer service, customer and market, customer service and attention to customer needs (Aziz and Yassin, 2010; Chelliah et al., 2010; Lim and Ramayah, 2008; Morrison, 2003; Tokarczyk et al., 2007; Zahra and Covin, 1995)

Firm characteristics; team start-up, availability of resources and SME characteristics (Boardman et al., 1981; Cooper, 1993; Covin and Slevin, 1991; Hashim et al., 2001)

Strategy; small target group strategy, specialisation strategy, high price strategy, new product introduction strategy, competitive forces, planning strategies, context bound strategy, competitive advantage in market, product, customer specialisation and marketing (Barney, 1986a; Frese et al., 2000; Galbraith and Schendel, 1983; Miles et al., 1978; Miller and Toulouse, 1986; Ong et al., 2010b; Porter, 1998)

Entrepreneur reputation for honesty and friendliness; marketing image, reputation and trust (Abimbola and Vailast, 2007; Dollinger, 2003; Goldberg et al., 2003; Lopez and Iglesias, 2010; Ponzi et al., 2011)

Organisational culture, values, risk orientation, financial heterogeneity, business culture, work culture, structured approach, free flow information, values perception corruption, partnership respect, trust, management integrity and corporate governance (Barney, 1986a; Hofstede et al., 1990; Javdani et al., 2006; Kamaluddin and Rahman, 2010; Rashid et al., 2003; Stevenson and Gumpert, 1985; Trompenaars and Hampden-Turner, 2007; Weick, 1987)

CONCLUSION

In order to make progress, SMEs need to overcome its internal problems and learn lessons from business failures. With development of selected critical success factors, SMEs can be transformed into dynamic, globally competitive and resilient organisations for long-term organisational success.

In this context, it is crucial to develop and leverage the critical success factors namely leadership and management, intellectual capital, organisational innovation, organisational competence, entrepreneurial characteristics, human resources, motivation, market orientation, firm characteristics, strategy, entrepreneur reputation and organisational culture for competitive advantages for optimal business growth and success.

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