

A Cross-Cultural View of Strategic Competency: The Perspective of SME Entrepreneurs

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ABSTRACT

The present study attempts to understand the prevalence of strategic competency among entrepreneurs in small and medium sized enterprises (SMEs) in Australia and Malaysia. A sample of 20 SME entrepreneurs from Australia and Malaysia participated in this study. A series of interviews were conducted to probe into the behaviours that delineate strategic competency among these entrepreneurs. The results showed that SME entrepreneurs in both countries highlighted the importance of strategic competency in managing and running their ventures despite some minor variations in terms of the practices across country. This study provides entrepreneurs with knowledge about the way they should operate their business and encourages them to be conscious of the importance of strategic competency in managing their business and increasing the odds of success. The study also shows that entrepreneurs are capable of minimising the negative impact of business environment if they are willing to equip themselves with strategic competency.

KEYWORDS: *Entrepreneurs, Culture, Strategic, Malaysia, Australia.*

JEL CLASSIFICATION: *M13, M14, M19, N35.*

INTRODUCTION

The era of globalisation has forced SME entrepreneurs to face massive changes regarding how they operate their businesses. It has also marked the end of the usual way of doing business, mandating new approaches into the forms of strategies entrepreneurs need to adopt in order to ensure business success. The challenges posed by globalisation have also impelled entrepreneurs to craft and execute strategies relevant to the new episode of intense competition. It is also noted that one of the most important problems face by managers in this turbulent business environment is to strategise in identifying and pursuing promising business opportunities which requires a careful selection of appropriate strategies (Shane & Venkataraman, 2000). Even though the study on strategies has often been directed towards large organisation, it has now received an increasing scrutiny in the context of SMEs.

According to Fuerer and Chaharbaghi (1995), strategy can be defined in the three ways; (1) skills in managing and planning a venture; (2) primary means of reaching the focal

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objectives, and (3) direction and scope of organisation over a long term. The present study endeavours to look at strategy in the form of competency and skills in managing and planning for the success of a venture. This follows Miller, Wilson, and Hickson's (2004) view that what managers do (which is the reflection of the strategy that they adopt) and the kind of the organizations they lead matters in achieving the organisation objectives.

Drawing upon Sparrow and Hodgkinson (2006) contention that strategic competency is central to the longer-term survival and well-being of the organization, the present study attempts to explore its relevance in the context of SMEs, with a justification that in this kind of industry, the actions and inactions of the entrepreneurs would have significant bearing on the success of their ventures. Therefore, in support of the activity-based view of strategy which argues that, since managers manage strategic actions, it is necessary to go inside the organisations to understand what they are doing and the way these actions may relate to performance (Miller et al., 2004), the present study utilises a qualitative approach in the effort to delve into the current practices of SME entrepreneurs in managing their ventures that delineate strategic competency. This study sets a platform for a cross-cultural approach in understanding the notion of strategic competency which compares two countries in Asia Pacific Region namely Australia and Malaysia.

1. LITERATURE REVIEW

SMEs in Australia and Malaysia

The socio-economic significance of SMEs, especially in the Asia Pacific region, has not been appreciated until recently. This is reflected in the relative neglect of the problems faced by SMEs by policymakers and academics prior to the 1980s. Indicative of the rising interest in SMEs is the inclusion of the SME's "development agenda" within the Asia Pacific Economic Cooperation (APEC) forum. In 1995, the SME working group was established as an ad hoc policy group and, in 2000, this policy group was upgraded to the SME Working Group and granted permanent status (APEC, 2003), demonstrating the growing appreciation of the contribution of SMEs to the social and economic development of a country.

In Australia, in particular, the government's attention to SMEs was marginal prior to the 1970's. No SME statistics were collected, very few universities offered entrepreneurship courses, and there were no Ministers of Small Business at either the Federal or State levels (APEC, 2003). The first small business association, the Australian Association of Independent Businesses, was launched in 1977 and, in the same year, the federal Department of Trade and Industry established a Small Business Registrar (APEC, 2003). By 2000, all State and Federal Governments had Ministers of Small Business, SME statistics were produced by the Australian Bureau of Statistics (ABS), and the government had established consultative mechanisms linked to SMEs. In 2001, 97% of all businesses in Australia were SMEs (Australian Bureau of Statistics (ABS), 2002). According to the ABS (2002), SMEs in Australia are best represented in the services sector, specifically: retail and wholesale trade (21.2%); construction (19.4%); property and business services (19.3%); transportation and storage (5.9%); accommodation, cafes, and restaurants (2.8%); and other personal services (7.1%). Today, SMEs are considered to be a major driver of the Australian economy.

Similarly, in Malaysia, little attention was given to SMEs prior to the 1980's. However recently, more attention has been given to assisting SMEs. To ensure a more coordinated

approach to SME development, the Malaysian government has established the High-Level National SME Development Council chaired by the Prime Minister (Asia-Pacific Economic Cooperation, 2004). Currently, at least 12 ministries and 40 government agencies are involved in the development of SMEs in Malaysia (SMIDEC, 2004). It has been reported that the contribution of SMEs to the GDP in the year 2002 increased by 2.5% and the productivity of SMEs rose by 2.7% (Business Times, Sept 13, 2003). In 2005, 96% of all manufacturing and service businesses were SMEs and the majority of SMEs (87.5%) were in the services sector (Kamini, 2005). The contribution of SMEs to employment rose to 7.7 % in the same year (Wahari & Raban, 2005). In 2006, The Central Bank of Malaysia reported that SMEs accounted for 99% of all businesses and contributed 38% of total output. In terms of employment, SMEs accounted for 55% of the total workforce (Central Bank of Malaysia, 2005). To further galvanise SMEs in Malaysia, the government has established an SME bank to assist entrepreneurs financially as well as the development of various training programmes, particularly in the areas of entrepreneurship development, marketing and promotion, product development and technology enhancement (Central Bank of Malaysia, 2007). Today, the future of SMEs in Malaysia is seen as optimistic, with considerable potential for further growth over the next few years and beyond.

Strategic Competency

Strategic competency is “a competency related to setting, evaluating, and implementing the strategies for the firm” (Man, Lau, & Chan, 2002, p. 132). Specifically, the Man (2001) operationalised strategic competency in terms of the following behaviours: (i) being aware of the projected directions and how changes might affect the firm, (ii) prioritising work in alignment with business goals, (iii) redesigning the firm to better meet the firm’s objectives, (iv) aligning current actions with strategic goals, (v) monitoring progress toward strategic goals, (vi) evaluating results against strategic goals, and (vii) determining strategic actions by weighing costs and benefits (Man, 2001, p. 304). Additionally, Thompson (1996) proposes that managing change is a part of strategic competence that could be linked to competitive success, particularly for firms that operate in a dynamic and competitive environment such as SMEs.

According to Man and Lau (2000), strategic competency reflects the ability of the owners to develop future-focused vision and goals, devise strategies to match the goals, and diagnose the effectiveness of the strategies through. This involves strategic thinking which reflects the ability of the organisation’s leader to develop future vision and take strategic action which requires them to think beyond day-to-day operations (Stonehouse & Pemberton, 2002). Evidence suggests that the future of smaller firms depends heavily on the entrepreneur’s vision (Yu, 2001). Having this vision allows entrepreneurs to focus their actions and decisions more strategically and when achieved, will give their firms significant advantages over the competitors. Therefore, it is crucial for entrepreneurs to develop a description of the desired future goals that are clear, measurable, and challenging since it will give them an overall picture of where they are going, what they want to achieve, and how they are going to compete.

By having a set of clear goals and an overall picture of where and how the firm is going to compete, entrepreneurs are able to formulate appropriate strategies and implement them to achieve the preset goals. It also allows entrepreneurs to set their priorities to ensure that the activities undertaken are aligned with the business goals (Man & Lau, 2000). These

strategies serve as a bridge that links firms' resources and their capabilities to gain competitive advantage (Porter, 1991) and to overcome organisational uncertainty (Parnell, Lester, & Menefee, 2000). Once strategies have been developed, entrepreneurs must be able to diagnose the effectiveness of these strategies and correct the weaknesses along with the process of formulation and implementation (Davies, 1993). In a sense, strategic competencies also involve entrepreneur's ability to develop vision, devise appropriate strategies, diagnose their effectiveness, and improve these strategies when needed.

Entrepreneurs are also strategic leaders who are responsible for making choices and actions that could influence their business success (Lado, Boyd, & Wright, 1992). Some further added that this competency area involves the ability to view things from different angle as well as the ability to analyse the possible pros and cons of a specific issue (Man & Lau, 2001). In the attempt to relate strategic change and competent organisation, Thompson (1996) proposed that strategic change is a part of strategic competence that could be linked to competitive success particularly for firms that operate in a dynamic and competitive environment. Operating in a dynamic environment often results in misfit between firms' strategies and external demand, which in turn, impel organisations to strategically change their operations and restructure their business when necessary. Several important elements required by entrepreneurs in doing so is the ability to be proactive and responsive to the changes in the environment and always be ready to respond to the changes in market condition and the environment (Man & Lau, 2000). As such, the ability to make strategic change also allows entrepreneurs to adapt and adjust the business operations to match the current demand in the industry. Based on the preceding discussion, there is a range of behaviours demonstrated by organisation's leader that could reflect strategic competency. The contention of this study is that strategic competency of SME entrepreneurs could be understood if an in-depth interview is conducted to unearth the strategic behaviours displayed by these entrepreneurs.

2. METHOD

The present study is undertaken to delve into the behaviours of Australian and Malaysian SME entrepreneurs that delineate strategic competency. Altogether, 20 entrepreneurs volunteered to participate in the study, in which the entrepreneurs were identified through snowball sampling method. Semi-structured interviews were conducted on an individual, face-to face basis. In the interviews, respondents were asked to comment on various aspects of their approach to managing their businesses that they perceived to be important to the success of a business. The study was presented to the participants as being about practices for small business owners in managing their business. The characteristics of the respondents are exhibited in Tables 1 and 2.

Table 1. Characteristics of the Australian Participants

Participants	Gender	Current Age	Education Level	Start up Age	Previous occupation	Management / technical training prior to start up (Formal/ Informal)
A	Female	28	Bachelor degree	25	Solicitor	Management (Formal)
B	Male	63	Certificate	26	Involved in other business	Management (Informal)
C	Male	37	Certificate	25	Involved in other business	Technical (Informal)
D	Male	40	Halfway through university	32	Electronic Technician	Technical (Informal)
E	Male	42	High School	27	Electrician	Technical (Informal)
F	Female	45	Masters degree	42	Company Director	Management and technical (Formal)
G	Male	56	High school	36	Store Manager	Management and Technical (Informal)
H	Female	23	Masters degree	21	Human Resource Advisor	Management (Formal)
I	Female	32	Certificate	30	Retail	Technical (Formal)
J	Female	24	Bachelor degree	22	Working with government	Technical (Formal)
<i>M</i>		39		28.6		
<i>SD</i>		13.19		6.54		

Source: authors

Table 2. Characteristics of the Malaysian Participants

Participants	Gender	Race	Current Age	Education Level	Start up Age	Previous occupation	Management/ Technical training prior to start up (Formal/ Informal)
K	Female	Malay	45	High school	40	Involved in other business	Management (Formal)
L	Female	Malay	40	Diploma	38	Bank officer	Management (Formal)
M	Male	Malay	44	Masters degree	39	General Manager in a public listed company	Management and Technical (Formal and informal)

N	Male	Malay	50	High school	20	NIL	Technical (Formal)
O	Male	Indian	43	High school	27	Factory worker	NIL
P	Male	Chinese	42	High school	25	Involved in other business	Technical (Informal)
Q	Male	Malay	41	High school	38	Factory worker & doing part time business	Technical (Informal)
R	Male	Chinese	35	Bachelor degree	26	Employed in a private company	Technical (Formal)
S	Male	Chinese	36	High school	29	Employed in a private company	Technical (Informal)
T	Male	Chinese	45	High school	30	Salesperson	Technical (Informal)
<i>M</i>			42.1		31.2		
<i>SD</i>			4.43		7.04		

Source: authors

3. RESULTS AND FINDINGS

Based on the qualitative data gathered, participants in general perceived Strategic Competency to be important in handling their business. Altogether, six clusters of strategic behaviours were derived including devise strategies, develop vision and business goals, conduct research, create competitive edge for firm to compete effectively, make strategic adjustment, and weigh costs and benefits. The clusters and 26 examples of behaviours reflecting Strategic Competency are summarised in Table 3.

Table 3. Strategic Competency Domain: Clusters and Examples of Strategic Behaviours

Cluster	Examples of behaviours
Devise strategies	<ul style="list-style-type: none"> • Devise strategy to overcome crisis • Devise strategy to match current business trend • Devise strategy to compete with others • Devise strategy to attract customers • Devise strategy to boost sale • Devise strategy for business production • Map ways to reach business goals
Develop vision and business goals	<ul style="list-style-type: none"> • Think about the future and develop long run goal • Have clear direction • Move ahead towards goals systematically • Prioritise activities with alignment to business goals

Conduct research	<ul style="list-style-type: none"> • Conduct research before proceeding with investment, e.g. setting up new branch; before introducing products/services introducing new products • Conduct research on business premise • Conduct research on potential customers • Conduct research on the quality of a product • Analyse changes in business environment
Create competitive edge	<ul style="list-style-type: none"> • Utilise firm's capabilities to improve performance • Diversify business portfolio or specialised in one portfolio • Create good business image and reputation • Outsource non-core business activities such as marketing and advertising
Make strategic adjustment or change (adaptability)	<ul style="list-style-type: none"> • Plan to overcome difficulties during low periods • Prepare and plan for the worst scenario • Be flexible in developing plans/contingency plans
Weigh costs and benefits	<ul style="list-style-type: none"> • Consider the benefits of investing in technology and R&D • Analyse pros and cons to determine strategic action • Evaluate business activities

Source: authors

All 20 participants from Australia and Malaysia recognized the importance of strategic behaviours in managing their business. Devising strategies to achieve business goals appeared to be the best represented cluster of Strategic Competency. As reported, strategies were formulated for a variety of goals: to achieve the overall business goal; to boost sales and increase turnover; to attract customers; to improve production; and to survive/succeed in a competitive environment. Besides developing strategies to achieve the business goals, Entrepreneur C (the owner of software development and computer related service company, Australia) highlighted the need to develop back-up strategies if the initial strategies did not work as planned. He stated:

I had also started to think about what happens if this doesn't actually succeed, like we would expect, and so I've been developing some thoughts on, essentially a fall back position of ensuring that if it doesn't succeed, then I'll ensure that the business does keep maintaining itself.

It was also the case that 17 participants (9 Australians and 8 Malaysians) perceived having a long-term vision and plans for business as being crucial. A remark illustrating the importance of this cluster was made by entrepreneur C (the owner of software development and computer related service company, Australia):

In terms of the actual business success, I think a lot of that comes down to having your direction and mapping your ways to get there, that would be a major, major contributor to a business not succeeding.

The other behaviour reflecting Strategic Competency pointed out by 15 participants (7 Australians and 8 Malaysians) was conducting research. The focus of research, however, varied across countries. Australians focused their research on the products and services available in the market, and the analysis of the business environment to forecast trends and

customers' preferences. As stated by entrepreneur A (the owner of a handbag designing and manufacturing company, Australia):

You have to really do your research in terms of not only starting your own business and what is required from you but really research what product or service you can offer...

By contrast, Malaysians participants expressed concern about researching their major competitors and a strategic business location issues not highlighted by Australian participants. The focus on the importance of location is consistent with suggestions made by Chawla, Pullig, and Alexander (1997) who argued that location was critical for business success, especially in retail firms. Nonetheless, a number of other topics of research were consistently mentioned by entrepreneurs from both countries: potential customers, the state of business environment, and current trends. Entrepreneurs also indicated that small business owners could not afford to allocate time and financial resources to formal research, and, consequently, most research was done informally. According to entrepreneur M (the owner of a steel trading company, Malaysia):

I think everybody did SWOT and PEST either formally or informally... but here, we do it informally. We do research on price, location, capacity, and our strength in marketing. We even sent our staff to survey potential customers...but not formally because we don't have to present it to the boss (as in large firms) (translation).

Entrepreneur Q (the owner of catering service and restaurant, Malaysia) stated that:

For me, I see conducting market research as the backbone of knowing what products or services that the customers want; how and where to sell those products or services. So it is very important to do a bit of research about the industry, customers, as well as your competitors...(translation).

According to this participant, conducting market research, especially on competitors, would help entrepreneurs understand their firm's position and gaps in the industry, thereby enabling them to identify a market niche. Similarly, Entrepreneur M (the owner of a steel trading company, Malaysia) mentioned:

We monitor and scan the environment. Now there are 2 big steel manufacturers and since they are big, their advantages are they have big name and they produce big volume. Normally they target big customers. Our aim is to approach small customers who have problem purchasing from big company (translation).

He commented further that market research was extremely important in the start-up stage, but that the process should not stop there; it should be continued through all stages of the business life cycle. This corresponds to Choo's (2001) argument that environmental scanning allows the identification of opportunities and threats posed by the environment. Surprisingly, four of 10 participants from Australia indicated that they did not pay much attention to what their competitors did because they picked up new customers based on referral by existing customers who were satisfied with their products or services. Clearly,

these entrepreneurs believed in having a strong base of loyal and satisfied customers. As mentioned by Entrepreneur E (the owner of an air conditioner service company, Australia):

We are a very funny little company especially in terms of how we operate... we do virtually no advertising. 90% of the work we do is referrals from existing clients.

Six of 10 Malaysians mentioned it was important to be aware of the competitors' actions and devise appropriate responses. Entrepreneur S (the owner of a printing service company, Malaysia) said:

In these days, business faces very intense competition. Even though the market is big, I need to develop effective strategies to compete (translation).

The strong focus on competition and competitors' practices in Malaysia may reflect the availability of numerous choices of products and services in the Malaysian market. Evidence has shown that competition is one major cause of switching behaviours among customers to a new provider because of the "attraction" posed by them (Keaveney, 1995). The fear of losing customers to competitors may put business owners in Malaysia under considerable pressure to formulate strategies that mitigate this risk.

Entrepreneurs from both countries also highlighted the significance of making strategic adjustments over time. Six participants from Australia and five from Malaysia reported that it was vital to make strategic adjustments to overcome difficulties that arose during low demand periods, or in saturated markets, by being flexible or developing contingency plans. According to Entrepreneur A (the owner of a handbag designing and manufacturing company, Australia):

Flexibility is very important in running a business because things change, particularly in my sort of industry, and when things change, you have to be able to adapt to it as well...so, I have to be able to have a contingency plan.

Correspondingly, the ability to adjust to market crises, such as a sudden downturn in demand, has been associated with successful performance in small firms (Smallbone, Leig & North, 1995).

The importance of creating a competitive edge was emphasised by 13 entrepreneurs (6 Australians and 7 Malaysians). However, different methods of doing this were highlighted by participants from both countries. Participants from Australia reported outsourcing non-core activities; specializing in one business portfolio; and creating a good business image and reputation. Three examples are worth highlighting:

These days most people running a small business are actually outsourcing skills to get tasks done that they cannot do themselves or they are not equipped to do or they do not have time to do...(Entrepreneur E, the owner of air an conditioner service company, Australia).

There's no point diversifying and doing a bit of everything and trying to get people in when all you're doing is making them upset because you do not know anything, you know, you're stretching yourself too thinly (Entrepreneur D, the owner of computer and related service company, Australia).

If something bad happens, it's better if we keep it within the business because you don't want to tarnish the company's reputation... For us, creating and

having a good reputation is important (Entrepreneur H, the owner of a website development company, Australia).

By contrast, Malaysians focused more on investing in technology especially communication technology and utilising up-to-date technology. This was seen as a means whereby to remedy the common constraint on growth of SMEs in Malaysia, namely, the use of outdated technology (Osman & Hashim, 2003). Another method for building competitive advantage in Malaysia was diversifying the business portfolio. As mentioned by Entrepreneur N (the owner of a motor trading company, Malaysia):

It is important for me to diversify my business portfolio so that I do not rely on only one source of income (translation).

It has also been noted that several interviewees (3 Australians and 6 Malaysians) actively weighed the costs and benefits of undertaking strategic actions. This was especially significant if the actions required a significant financial commitment on the part of the entrepreneurs because more often than not, the owners utilised their own personal savings for business investment (Bennett & Dann, 2000; Tucker & Lean, 2003).

The results of the analysis of Strategic Competency, and the clusters of behaviour that define it, are summarised in Figure 1.

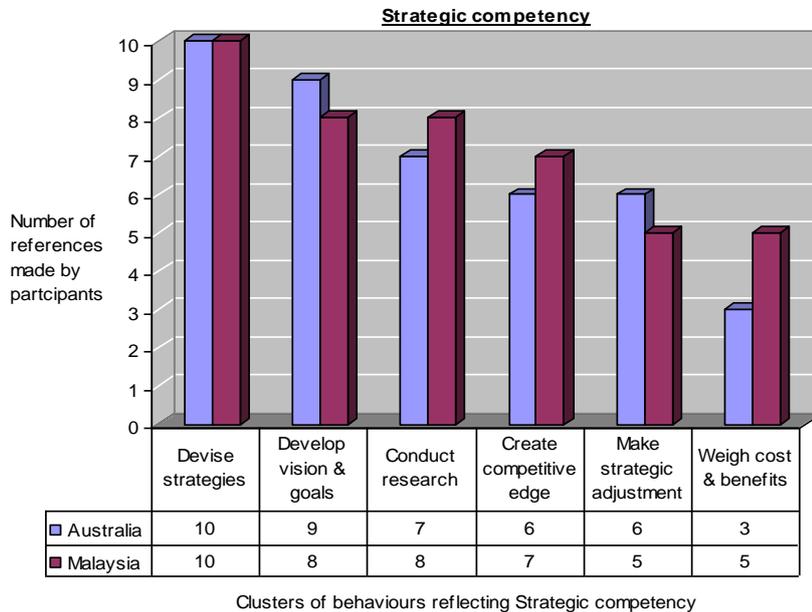


Figure 1. Clusters of Behaviours that define Strategic Competency in Australia and Malaysia

Source: authors

DISCUSSION AND CONCLUSION

In general, the examination of the nature of the strategic behaviours identified by participants from both countries highlighted four key elements. First, the need to devise strategies that would enable their business to succeed was clearly articulated. Second, Australians and Malaysians exhibited a common understanding of the importance of having a clear vision and direction for their business. These findings are consistent with the literature that has reported that formulating strategies and developing clear business goals and a vision are significantly related to entrepreneurial behaviour in smaller firms (Sadler-Smith et al., 2003). Third, entrepreneurs from both countries agreed on the importance of creating a competitive edge in business; however, different means for achieving this goal were articulated. Australians highlighted the significance of outsourcing non-core business activities such as advertising, payroll, and marketing. Among Malaysian entrepreneurs, there was no discussion of outsourcing business activities; these entrepreneurs emphasised investing and utilising up-to-date technology as means whereby to develop the firm's competitive advantage. Fourth, a marked contrast was noted with respect to the importance of diversification or specialisation to gain competitive advantage. Australians stressed specialisation whereas Malaysians emphasised diversification. This variation may reflect the differences in the industries in which the entrepreneurs were operating, differences in their firm's maturity, and differences in the degree of competition.

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