The Relationship of Business Model Design and Performance of Manufacturing SMEs in Malaysia: The Moderating Effect of External Environment

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Business performance has been researched previously in relation to entrepreneurial orientation, market orientation, business strategy or strategic planning, and the characteristics of the owners/managers itself. Recent studies initiated that the firm's business model plays a significant role in determining the firm's performance. However, not much has been done to see the relationship between business model and performance of the firm. Every organization needs a business model regardless of its type of establishment, whether it is a profit or non-profit organization. Business model identifies several actions to be undertaken in order to generate income by organizing the process of producing the offering (product/service/or both) effectively and efficiently. Basically, the business model explains how the firms will generate the income or money. Thus, it is very useful for every organization to have a practical business model in order to help them to do well in the intense business environment. There are many components of business model being discussed in the literature. Factor analysis conducted on components and sub-components of business model available in the literature initiated that there are four main components or dimensions of business model: competencies, stakeholders, value creation, and value capture. Hence, these four dimensions were used as business model dimensions in this study. Every organization does not operate in vacuum. The boundary-less business from the effect of globalization where technology changes rapidly, the shortage of resources, and many other circumstances exist in this challenging business world. The effect of the external environment on a company's performance is well acknowledged in the literature. Many studies incorporated environmental variables as one of the elements being studied, especially on the moderating effect of environment to performance. Common external environment dimensions used in the literature are dynamism, hostility, and turbulence. This study has been conducted on manufacturing SMEs in Malaysia, by looking at the design of the business model and its relationship to firm's performance, moderated by the external environment. A mail survey questionnaire has been used for collecting the relevant data. The respondents' addresses used in this study were from the online database (www.smeinfo.com.my). Data collection has been carried out from July to November 2009. After five months of data collection, 202 (20.2 percent) owners/managers of manufacturing SMEs responded to this study. Preliminary analyses conducted revealed that business model design in the context of competencies, stakeholders,
value creation, and value capture have a significant direct impact on firm performance. Further analyses initiated that external environment: dynamism, turbulence, and hostility did not moderate the relationship between competencies, stakeholders, value creation, and value capture on business performance. The findings of this study suggested that in order to increase the firm's performance, one of the important factors to be emphasized on is to have a practical business model. This research gives benefit to the SMEs, business owners, Malaysian government as well as all the agencies and the academician on the importance of the business model design and the possible effect of external environment on the SMEs' performance in Malaysia. Furthermore, the findings benefit entrepreneurs as well as the decision makers and the outcomes from this research are expected to have policy implications for the future development of entrepreneurship programs for current and future entrepreneurs in Malaysia.

**Subject** : Business model; Small and Medium Enterprise (SME); SME performance; external environment

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