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BUSINESS MODEL INNOVATION AND ENTREPRENEURIAL ORIENTATION RELATIONSHIPS IN SMES: INTERNAL AND EXTERNAL FACTORS

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ABSTRACT

This study explores the relationship between business model innovation (BMI) and entrepreneurial orientation (EO) in Malaysian SMEs, focusing on internal and external factors that impact their international performance. Using a mixed-methods approach, the research combines quantitative data and qualitative insights to highlight the importance of BMI and EO in driving adaptability, growth, and customer focus. Key internal factors like team adaptability and organizational efficiency, along with external influences such as government programs, market trends, and technology, play a critical role in international success. The study also emphasizes the role of personal traits, such as resilience and risk tolerance, in driving entrepreneurial growth. It provides valuable insights for practitioners and policymakers to support Malaysia's SME sector in global markets.

Keywords: Business Model Innovation, Entrepreneurial Orientation, Internal and External Factors, SMEs in Malaysia

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1.0 INTRODUCTION

Small and medium enterprises (SMEs) are the backbone of many economies, playing a pivotal role in driving job creation, innovation, and economic development. In Malaysia, SMEs contribute significantly to the nation's GDP and employment, accounting for over 90% of all businesses. Despite their importance, many Malaysian SMEs face challenges in sustaining growth and competing in global markets. Limited resources, lack of expertise, and fluctuating market conditions often hinder their ability to scale internationally. Addressing these challenges requires a strategic focus on innovation and entrepreneurial practices, which can enhance their competitiveness and adaptability in dynamic global environments.

Business model innovation (BMI) and entrepreneurial orientation (EO) have emerged as critical factors influencing the international performance of SMEs. BMI involves rethinking and redesigning a company's value proposition, customer segments, and operational strategies to stay relevant and competitive. Meanwhile, EO encompasses the entrepreneurial traits of risk-taking, proactiveness, and innovation, which drive a firm's ability to identify and capitalize on opportunities. When effectively integrated, BMI and EO can transform SMEs by enabling them to adapt to new markets, respond to customer demands, and overcome resource limitations.

Globalization and technological advancements have further underscored the need for SMEs to innovate and adopt entrepreneurial strategies. The rapid pace of change in consumer preferences, market trends, and digital transformation presents both opportunities and challenges for SMEs. In Malaysia, where the government actively supports SME development through various initiatives, understanding the interplay between BMI and EO is crucial for fostering sustainable growth. Government programs such as SME Corp Malaysia and export promotion schemes aim to equip SMEs with the tools and resources needed to innovate and expand internationally. However, the extent to which these efforts translate into measurable performance improvements largely depends on how SMEs implement and align BMI and EO within their operations.

The role of internal factors in driving the success of SMEs cannot be understated. Key elements such as leadership, organizational culture, and employee skills are essential for the effective execution of innovative business models and entrepreneurial activities. Leaders who exhibit high levels of risk tolerance, creativity, and resilience are more likely to foster an environment conducive to innovation. Additionally, a supportive organizational structure that encourages collaboration and agility is crucial in ensuring that new ideas are effectively implemented. For SMEs, these internal dynamics can determine their ability to adapt quickly to global market shifts and capitalize on emerging opportunities.

Externally, SMEs face a host of challenges and opportunities that shape their international performance. Market trends, technological advancements, and competitive pressures push SMEs to continuously innovate and refine their business models. Moreover, government policies and international trade agreements can either facilitate or hinder their expansion efforts. Malaysia's active involvement in regional trade agreements, such as the ASEAN Economic Community (AEC), has opened up new avenues for SMEs to explore cross-border business opportunities. Understanding how external factors interact with internal capabilities will provide a comprehensive view of the forces at play in SME internationalization.

This research aims to fill gaps in the current literature by examining how both internal and external factors influence the integration of BMI and EO within Malaysian SMEs. It explores how these factors collectively impact the ability of SMEs to innovate and expand internationally, offering a holistic approach to understanding the challenges and enablers of international performance. The study will also investigate the role of external support systems, such as government initiatives and technological infrastructure, in enabling SMEs to innovate and compete on the global stage.

By delving into these complex dynamics, this research will offer actionable insights for SME leaders looking to enhance their competitive edge in international markets. It will also provide policymakers with recommendations on how to create an environment that supports the innovation and entrepreneurial efforts of SMEs, ultimately contributing to Malaysia's broader economic growth and development. The outcomes of this study will not only advance theoretical knowledge in

the field of SME internationalization but also offer practical strategies for enhancing the global competitiveness of Malaysian SMEs. |

2.0 LITERATURE REVIEW

2.1 Theories on Growth Intention

Entrepreneurial growth intention refers to the desire of entrepreneurs to expand their businesses, often through new markets or scaling operations. The Theory of Planned Behavior (TPB) explains that entrepreneurs' intentions are influenced by their attitudes toward growth, perceived control over their capabilities, and social pressures. In the context of Malaysian SMEs, this theory helps understand how internal factors, such as self-belief and attitudes, and external factors, such as market demand and competition, shape their growth strategies. Similarly, the Entrepreneurial Intention Model (EIM) emphasizes the role of both personal characteristics and external opportunities in driving growth, highlighting the significance of both internal and external factors in shaping business model innovation and entrepreneurial orientation.

2.2 Personal Characteristics

Entrepreneurial growth intention is closely tied to personal traits like risk-taking, leadership, and resilience. Entrepreneurs with a high tolerance for risk are more likely to engage in innovative activities and explore uncertain markets, essential for international expansion. Leadership qualities such as vision, adaptability, and the ability to inspire teams are vital for driving growth in SMEs, particularly in global markets. Resilience is crucial in navigating the challenges of international entrepreneurship, such as regulations, cultural differences, and competition, as it enables entrepreneurs to adapt their business models and strategies while staying focused on growth opportunities. These personal traits are key predictors of entrepreneurial success in expanding SMEs internationally.

2.3 Organizational and External Factors

While personal traits are important, organizational and external factors also play a significant role in shaping entrepreneurial growth intentions. Company size impacts an SME's ability to innovate and expand internationally, as larger firms with more resources can invest in business model innovations that smaller SMEs may struggle to match. Resource availability, such as financing, skilled labor, and technology, is crucial for supporting international growth. External factors like market conditions and regulatory challenges also influence growth intentions, with competitive markets driving innovation and regulatory barriers in foreign markets requiring strategic adaptation. Although quantitative studies have explored these factors, there is a gap in qualitative research examining how Malaysian SMEs experience and overcome these barriers.

2.4 Gaps in Literature

While numerous quantitative studies have examined factors influencing entrepreneurial growth intention, such as access to capital, market competition, and personal traits, there is a lack of qualitative research exploring the personal stories and perspectives of entrepreneurs, particularly within the context of Malaysia's SMEs. Existing literature tends to offer broad insights through surveys or large-scale analyses, leaving the subjective experiences of SME leaders, especially those in international markets, under-explored. However, this research aims to fill that gap by focusing on the nuances of entrepreneurial motivation, challenges, and the role of business model innovation in driving international performance. By addressing this gap, this study will provide practical insights into how Malaysian SMEs conceptualize growth, innovate, and navigate the complexities of international entrepreneurship.

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3.0 METHODOLOGY

3.1 Research Design

This study employs a qualitative research design to examine the relationship between business model innovation (BMI), entrepreneurial orientation (EO), and the international performance of Malaysian SMEs. By focusing on internal factors, such as leadership and organizational adaptability, and external influences like market trends and government support, the study aims to provide a nuanced understanding of these dynamics. The qualitative approach is ideal for capturing the complexities and lived experiences of SME leaders navigating the challenges of global expansion. This research seeks to uncover actionable insights to enhance the competitiveness and internationalization strategies of SMEs in Malaysia.

3.2 Sample Selection

The target population for this study comprises Malaysian SMEs from sectors like technology, manufacturing, and services that have engaged in international activities. Using a purposive sampling method, the research will focus on SMEs with experience in business model innovation (BMI) and entrepreneurial orientation (EO) to ensure relevant insights. Approximately 5 SMEs will be selected, with 1-2 key decision-makers from each firm participating to provide diverse perspectives. This approach allows for an in-depth exploration of how BMI and EO influence the international performance of SMEs in Malaysia.

3.3 Data Collection

Semi-structured interviews will be the main method for data collection, exploring themes like business model innovation (BMI), entrepreneurial orientation (EO), and their impact on international performance. Optional focus groups may provide diverse perspectives to complement the interviews. Secondary data, such as company reports and industry publications, will be analyzed to triangulate and enrich the findings. This approach ensures a comprehensive understanding of the relationship between BMI, EO, and SME international success.

3.4 Data Analysis

This study adopts a systematic framework for analyzing qualitative data collected from interviews to explore the relationships between business model innovation (BMI), entrepreneurial orientation (EO), and international performance in Malaysian SMEs, with a focus on internal and external factors. Interviews will be audio-recorded with participants' consent and transcribed verbatim to ensure accuracy and capture nuances. Thematic analysis will be employed to identify patterns and themes, emphasizing internal dynamics such as leadership and team adaptability, and external influences like market trends and government support. Qualitative analysis software like Atlas.ti will assist in organizing, coding, and visualizing data, ensuring rigor and efficiency in uncovering how these factors collectively impact SME international performance.

3.4 Ethical Considerations

Before collecting data on the relationships between business model innovation (BMI), entrepreneurial orientation (EO), and international performance in Malaysian SMEs, with a focus on internal and external factors, all participants will be briefed on the study's purpose, objectives, and procedures. Informed consent will be obtained through signed forms outlining their rights, including voluntary participation and withdrawal without consequences. To ensure confidentiality, pseudonyms or codes will replace personal identifiers, and data will be securely stored in password-protected files or locked cabinets, accessible only to the research team. Ethical approval from the relevant Institutional Review Board (IRB) will be secured, confirming that the study adheres to ethical standards and safeguards participants' rights and privacy. |

4.0 FINDINGS AND DISCUSSION

4.1 Data Analysis

Internal factors, such as team adaptability, support from employees and family, and an efficient organizational structure, significantly influence the success of SMEs. A skilled, flexible team helps businesses stay competitive and responsive to market changes, while family and employee support fosters motivation and stability. Additionally, clear roles and efficient processes ensure smooth operations. External factors, including government support, market trends, and technological advancements, also play a crucial role in SME growth. Government programs and incentives help businesses expand and innovate, while staying updated on market and customer trends allows SMEs to remain competitive. External platforms and technology, such as e-commerce tools and social media, enhance global connectivity and operational efficiency.

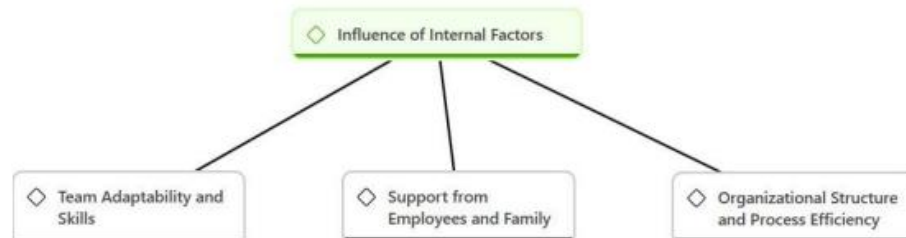
4.2 Descriptive Statics Analysis

The results of the demographic characteristics of respondents are shown in Table 1 Profiles of Respondents.

Name	Age	Gender	Business
Nur Amira Athirah	36	Female	Sells Home appliances at Shopee
Mohd Zaid	48	Male	Roadside Restaurant
Akmal Fairuz	39	Male	Franchisor Seven E
Siti Zulaikha	41	Female	A manager from a Store
Danial Rasyid	39	Male	Owner of an Online Boutique

The findings from the research were subsequently analysed by Atlas.ti software, and the summary of the results is as follows:

4.3 Research Findings One: Influence of Internal Factors



Internal factors play a big role in how well a business performs. Team adaptability and skills are crucial, as having a skilled and flexible team helps a company quickly respond to changes and challenges. (Herrity, 2024) Support from employees and family can also provide motivation and stability, giving business leaders the encouragement they need to push forward. Lastly, having an efficient organizational structure and processes makes it easier for the business to operate smoothly and achieve its goals.

Team Adaptability and Skills

Team adaptability and skills are crucial for SMEs to stay competitive and responsive to market changes. A knowledgeable and flexible team is essential, especially when facing new trends and challenges. As Nur Amira Athirah highlights, having a team that understands online selling and can adapt quickly is vital, while Danial Rasyid emphasizes the need for organization and flexibility, particularly in managing inventory and customer requests.

Support from Employees and Family

Support from employees and family is vital for SMEs, as it provides encouragement and assistance in handling new ideas, tasks, and challenges. This support strengthens the business by ensuring alignment and collaboration towards common goals. As Mohd Zaid mentions, his family and employees play a key role in supporting his ideas and taking on new responsibilities, contributing to the business's success.

Organizational Structure and Process Efficiency

Organizational structure and process efficiency are essential for SMEs to operate smoothly and meet customer needs effectively. Clear roles and efficient processes ensure that the business runs well and resources are utilized wisely. As Siti Zulaikha points out, having a team that is open to learning and adapting to new systems is crucial, while Danial Rasyid emphasizes the importance of staying organized and flexible, especially in managing inventory and customer requests.

4.4 Research Findings Two: Influence of External Factors



External factors greatly impact how a business grows and succeeds. Government support and programs can provide important resources, like funding or training, to help businesses thrive. Paying attention to market and customer trends ensures that businesses stay relevant and can meet changing demands. Additionally, using external platforms and technology allows businesses to connect with a wider audience, improve operations, and remain competitive in today's fast-moving digital world.

Government Support and Programs

Government support, including programs, grants, and policies, plays a vital role in helping SMEs grow, innovate, and expand into international markets. These resources enable businesses to improve products and services while easing the financial burden of international expansion. As Nur Amira Athirah mentions, support from Shopee's promotional tools and government e-commerce programs has been crucial in managing international shipping costs, while Siti Zulaikha highlights how government incentives and grants for retail innovation make it easier to implement changes without straining the budget.

Market and Customer Trends

Market and customer trends involve shifts in customer preferences and market demands, influencing how SMEs adapt their business models and innovate. Staying updated on these trends helps businesses make informed decisions and remain competitive. As Akmal Fairuz points out, industry regulations and international business laws guide innovation in different countries, while Danial Rasyid emphasizes that social media trends and customer feedback drive the changes he implements in his business.

External Platforms and Technology

External platforms and technology, such as e-commerce sites, social media, and payment systems, are essential for SMEs to connect with global customers and streamline operations. These tools enhance efficiency and accessibility for businesses aiming to expand internationally. As Danial Rasyid mentions, e-commerce tools like Shopify and payment solutions help him stay efficient and reach international buyers, while Nur Amira Athirah highlights how using Shopee has made it easier to connect with buyers across Southeast Asia. |

5.0 CONCLUSION

In conclusion, this study highlights the critical interplay between business model innovation (BMI) and entrepreneurial orientation (EO) in driving the international performance of Malaysian SMEs, emphasizing both internal and external factors. Internal factors such as team adaptability, support from employees and family, and organizational efficiency are essential for SMEs to navigate challenges and stay competitive. A skilled and flexible team, alongside a supportive and well-structured organizational environment, fosters innovation and growth, especially in rapidly changing markets. Externally, government support programs, market trends, and technological advancements provide SMEs with the necessary resources to innovate and expand internationally. Government initiatives, such as e-commerce programs and funding opportunities, ease the financial burden and encourage innovation, while market shifts and technological platforms, such as e-commerce sites and social media, allow SMEs to connect with global customers and stay relevant. The research also underscores the importance of personal traits like resilience and risk tolerance, which enable entrepreneurs to adapt to adversity and capitalize on growth opportunities. By addressing both internal and external factors, this study provides actionable insights for SME leaders and policymakers, aiming to enhance Malaysia's SME sector's competitiveness in global markets.

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