INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES

Vol 15, Issue 3, (2025) E-ISSN: 2222-6990

The Influence of Organizational Capabilities, Intellectual Capital, and Entrepreneurial Leadership on Micro-Enterprises Performance

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To Link this Article: http://dx.doi.org/10.6007/IJARBSS/v15-i3/24972 DOI:10.6007/IJARBSS/v15-i3/24972

Published Date: 10 March 2025

Abstract

The performance of micro-enterprises is anticipated to benefit from the development of superior strategic assets, as opposed to a reliance on typical tangible assets. Intellectual capital, entrepreneurial leadership, and organizational capabilities are key factors that may potentially influence the performance of micro-enterprises, particularly within the framework of the Resource-Based View (RBV). The objective of this study is to examine the impact of organizational capabilities, intellectual capital, and entrepreneurial leadership on micro-enterprise performance. A survey was conducted to gather data from a sample of 118 entrepreneurs participating in entrepreneurial programs provided by three selected agencies. Questionnaires were distributed to all entrepreneurs within the sample, and 100 responses were received. Data analysis was performed using Partial Least Squares (PLS). The findings indicate that organizational capabilities exert a weak positive influence on business performance, with operational capability being the primary contributing dimension. Operational capability refers to the ability of business entities to manage and address existing challenges effectively. However, entrepreneurial leadership and intellectual capital were found to have no significant impact on the performance of the micro-enterprises involved.

The theoretical implication of these findings is that strategic intangible assets, as conceptualized by RBV, can indeed be cultivated within the context of micro-scale enterprises, particularly through the operational capabilities dimension of organizational capabilities. However, the effects of intellectual capital and entrepreneurial leadership remain weak and insignificant, as these factors have yet to reach a level of necessary uniqueness to enhance micro-enterprise performance. This study contributes to the existing literature on Organizational Behaviour by examining the simultaneous influence of three specific intangible assets on microbusiness performance.
Keywords: Organizational Capabilities, Intellectual Capital, Entrepreneurial Leadership, Resource-Based View (RBV), Intangible Assets

Introduction

Micro and small enterprises (MSEs) play a pivotal role as key drivers of job creation and economic development (Pandey and Chaudhary, 2024; Ipke and Elumalue, 2024; Partala et al., 2024; Pedraza, 2021; Ciekanowski and Wyrębek, 2020; Chilembo, 2021; Prakash et al., 2021; Sugiarto, 2018; Raghuvanshi et al., 2019). MSEs refers to firms with revenue, total assets, and number of employees that fall below the thresholds established by the regulatory framework of a given country (Pedraza, 2021). Within the Malaysian context, micro enterprises are characterized as businesses with annual sales of less than RM300,000 or fewer than five full-time employees. Small enterprises, on the other hand, are defined as those with annual sales ranging from RM300,000 to RM15 million, or with a workforce ranging from five to a maximum of 75 employees in the manufacturing sector, and up to 30 employees in the services and other sectors (SME Corp, 2023).

According to the research by Partala et al. (2024), Pedraza (2021), and Ciekanowski and Wyrębek (2020), micro and small enterprises (MSEs) are fundamental to the economic vitality of both developing and developed nations. However, the ability of MSEs to contribute to the sustainable growth of national economies is contingent upon their business performance and their capacity to adapt and thrive within an increasingly dynamic business environment. A considerable body of literature has identified the various challenges that MSEs encounter, which hinder their long-term business performance and growth (Pedraza, 2021; Prakash et al., 2021; Chilembo, 2021; Sugiarto, 2018), with some MSEs struggling to survive beyond a short time frame.

The capacity to navigate business performance challenges is now closely associated with the internal strength of strategic assets, such as intellectual capital, entrepreneurial leadership, and organizational competencies. Traditional reliance on conventional assets—such as access to capital, ownership of technology, and physical infrastructure—no longer provides a sufficient competitive edge in today's business climate. Consequently, scholars in organizational behavior have increasingly focused on the identification and utilization of new, more impactful sources of competitive advantage, grounded in the Resource-Based View (RBV) framework, which emphasizes the importance of unique and inimitable resources in driving superior performance.

According to the Resource-Based View (RBV), intangible assets are crucial in creating unique competitive advantages for organizations (Kero and Bogale, 2023; Kamasak, 2017; Adnan et al., 2018). Most intangible assets are linked to an organization's internal strengths, which are

difficult for competitors to imitate. Huang et al. (2012) argue that possessing tangible resources, such as land and capital, does not guarantee superior business performance. Instead, ownership of unique intangible assets enables business entities to achieve above-average profits, surpassing those earned by competitors within the same industry.

This study posits that the business performance of micro-entrepreneurs under the entrepreneurial program of relevant agencies may be influenced by variables such as intellectual capital, organizational capabilities, and entrepreneurial leadership, in alignment with the RBV framework. The role of intangible assets in business performance highlights the potential for new, relevant assets to be developed to enhance the performance of micro and small enterprises (MSEs).

Literature Review

Resource-Based View (RBV)

The Resource-Based View (RBV) emphasizes the importance of internal resources and capabilities as fundamental drivers of an organization's competitive advantage (Kero and Bogale, 2023; Lubis, 2022; Wang, 2014; Barney, 1991). According to RBV, only strategic elements—specifically unique and differentiated assets and capabilities—are critical in the creation of sustainable competitive advantages. Scholars in the field of Strategic Management have applied RBV to explain variations in firm performance, suggesting that a significant portion of a firm's success is attributable to the ownership of distinctive resources and capabilities that enhance its competitive position relative to competitors who lack such resources (Wang, 2014; Mikalef and Pateli, 2017; Madhani, 2010).

Within the RBV framework, increasing attention has been directed towards the role of intangible assets in creating competitive advantages, as these assets are closely linked to the "internal strengths" specific to an organization and are inherently difficult for competitors to imitate. Huang et al. (2012) argue that possessing valuable resources, such as land and capital, does not guarantee superior performance, as these resources alone cannot yield benefits unless they are effectively mobilized by management to leverage opportunities and achieve efficiency and effectiveness.

The RBV perspective asserts that intangible assets can rival tangible assets in driving exceptional business performance (Nguyen, 2024; Lubis, 2022; Kamasak, 2017). For intangible assets to generate a sustainable competitive advantage, they must possess four critical attributes: they must be valuable, rare, imperfectly imitable, and non-substitutable, which together enhance an organization’s efficiency and effectiveness (Kamasak, 2017; Adnan et al., 2018; Ramon-Jeronimo et al., 2019). Kamasak (2017) further emphasizes that intangible resources, particularly organizational capabilities, play a decisive role in determining a firm’s performance. Consequently, based on the RBV, organizational capabilities, intellectual capital, and entrepreneurial leadership are anticipated to be key intangible assets that can be leveraged to enhance the performance of micro and small enterprises (MSEs) in the contemporary business environment.

Organizational Capabilities

According to Nath et al. (2010), organizational capabilities refer to both tangible and intangible processes that develop within a firm over time, which cannot be acquired

externally but are built internally. Organizational capability pertains to a firm's ability to utilize its resources to perform activities or tasks that enhance the firm's performance (Hassan et al., 2017). Previous research has indicated that organizational capabilities significantly influence the financial performance of micro and small enterprises (MSEs) (Sabri et al., 2023; Ofori-Amanfo et al., 2022; Mongkol, 2022; Ebegbetale and Okon, 2022; Yu et al., 2022). This leads to the following hypothesis expectation:
Ha1: Organizational capabilities have a positive relationship with the business performance of micro-enterprises.

There are three types of organizational capabilities: (Kumar, 2024; Prester, 2023; Sabri et al., 2023; Kero and Bogale, 2023; Hsu and Wang, 2012; Wang and Hsu, 2010; Hassan et al., 2017):
(a) Zero-level capabilities (operational capabilities)
(b) First-level capabilities (dynamic capabilities)
(c) Higher-order capabilities (regenerative dynamic capabilities)

Operational capabilities refer to a firm's ability to sustain itself within the current situation and existing market conditions. Dynamic capabilities, on the other hand, refer to the firm's ability to modify or expand the existing state (zero-level) in a way that enhances its performance through organizational learning, resulting in innovations and renewals that have commercial value. Regenerative dynamic capabilities involve expanding first-level capabilities to transcend the current and existing conditions.

In the context of micro-enterprises, the organizational capabilities most relevant to business performance are expected to be operational capabilities and dynamic capabilities (first level). This is because micro-enterprises are still limited in terms of capital size and systematic management, which implies that higher-order capabilities are yet to be achieved at this stage. Referring to the study by Ofori-Amanfo et al. (2022), four types of organizational capabilities that positively influence the financial performance of MSEs include operational capabilities, management capabilities, value chain capabilities, and marketing capabilities. Therefore, these capabilities remain within the scope of operational capabilities. Meanwhile, dynamic capabilities that significantly impact the performance capacity of MSEs include innovative capabilities, absorptive capacity, and adaptive capacity (Mongkol, 2022; Ebegbetale and Okon, 2022). This leads to the following hypotheses for the study:
Ha2: Operational capabilities are related to organizational capabilities in micro-enterprises.
Ha3: Dynamic capabilities are related to organizational capabilities in micro-enterprises.

Intellectual Capital
Intellectual capital refers to the intangible assets that can provide a competitive advantage for businesses (Regalado and Guevara, 2024; Danladi et al., 2023; Khalique et al., 2020). It encompasses a combination of knowledge, technology, information, experience, organizational competencies, brand equity, and customer relationships, all of which contribute to creating value within an organization (Danladi et al., 2023). Intellectual capital is a class of intangible assets grounded in education, knowledge, professional skills, customer loyalty, databases, policies, procedures, integrity, honesty, and intellectual agility, which are crucial for business success (Nguyen, 2024; Khalique et al., 2020). Numerous studies have examined the relationship between intellectual capital and firm performance (Nguyen, 2024; Khalique et al., 2018; Beltramino et al., 2021; Beltramino et al., 2020; Khalique et al., 2020;

Zakery and Saremi, 2021; Ramirez et al., 2021). In this regard, this study adopts the viewpoint of Ishak et al. (2022), which posits intellectual capital as a mechanism for creating value and driving the business performance of micro-enterprises.

Intellectual capital is composed of three key dimensions: human capital, relational capital, and structural capital (Ishak et al., 2022). Human capital refers to the knowledge and capabilities possessed by organizational members, which drive the firm's operations. The possession of high-quality human capital contributes to firm performance by enhancing output, reducing costs, and improving operational efficiency. Relational capital pertains to the interactions between individuals and the organization. It offers competitive advantages by providing better business opportunities, minimizing business risks, and facilitating access to markets. Structural capital refers to organizational knowledge embedded within the firm, such as databases, organizational structures, culture, and procedures. It ensures that business operations are efficient and systematic. Consequently, intellectual capital is expected to enhance the performance of micro and small enterprises (MSEs) through these three dimensions.

Thus, the following hypotheses are proposed:
Ha4: Intellectual capital has a positive relationship with business performance.
Ha5: Intellectual capital positively influences business performance through the mediation of organizational capabilities.

Entrepreneurial Leadership
The concept of entrepreneurial leadership emerges from the synthesis of prior concepts, including entrepreneurship, entrepreneurial orientation, management, and leadership (Ishak et al., 2021). According to Ercantan et al. (2024) and Anju and Mathew (2017), entrepreneurial leadership is defined as a form of leadership that possesses a clear vision and is capable of effectively communicating that vision to all members of the organization (the work team). This enables the identification, development, and exploitation of opportunities within the environment to create a competitive advantage for the organization. Consequently, entrepreneurial leadership involves influencing and directing organizational members toward achieving set goals by recognizing and capitalizing on entrepreneurial opportunities. The core functions of entrepreneurial leadership include vision setting, fostering teamwork, and driving organizational change (Anju and Mathew, 2017). In addition, Esmer and Dayi (2017) describe entrepreneurial leadership as a contemporary and advanced form of leadership that results from the integration of leadership qualities and entrepreneurial spirit. Thus, the concept of entrepreneurial leadership refers to a leadership style characterized by risk-taking, opportunity assessment, innovation, productivity, and strategic orientation, which are applied during the process of influencing and guiding organizational members towards achieving predetermined objectives.

The components of entrepreneurial leadership encompass the willingness to take calculated risks, the creation of effective teams, creativity in mobilizing required resources, the ability to develop sound business plans, and possessing a vision to recognize opportunities that others may perceive as chaotic, threatening, or confusing (Zainol et al., 2018). Entrepreneurial leadership is an essential factor in managing business performance within the current dynamic environment (Ercantan et al., 2024; Esmer and Dayi, 2017; Anju and Mathew, 2017).

This view is supported by previous studies that demonstrate a positive relationship between entrepreneurial leadership and the performance behaviors of small-scale enterprises (Al Mamun et al., 2018; Bagheri, 2017; Rahim et al., 2015; and Jagdal and Bhola, 2014). Therefore, entrepreneurial leadership is considered a strategic element within the category of intangible assets, which should be accounted for in business performance research, as it reflects the ability of entrepreneurs to lead and manage businesses (Ishak et al., 2021).

Hypothesis 6: Entrepreneurial leadership is positively correlated with business performance.

Hypothesis 7: Entrepreneurial leadership has a positive impact on business performance through the intermediary role of organizational capabilities.

The conceptual framework for this study has been developed based on the insights drawn from the literature review, as depicted in Figure 1. Three types of intangible assets are the focus of the study: entrepreneurial leadership, intellectual capital and organizational capabilities. Organizational capabilities, entrepreneurial leadership and intellectual capital are expected to exert direct relationship with business performance. Meanwhile, it is anticipated that intellectual capital and entrepreneur leadership will also influence organizational performance indirectly through the mediation of organizational capabilities at both operational (zero-order) and dynamic (first-order) levels. Entrepreneurial leadership represents an intangible resource related to the traits of entrepreneurs who lead firms, while intellectual capital signifies intangible resources linked to valuable assets that can be utilized in the value creation process of a business. Thus, a strategic integration of organizational elements of intellectual capital and entrepreneur leadership is expected to enhance the power of operational and dynamic capabilities, thereby providing a stronger competitive advantage through organizational capabilities and ultimately reflected in the improved business performance.

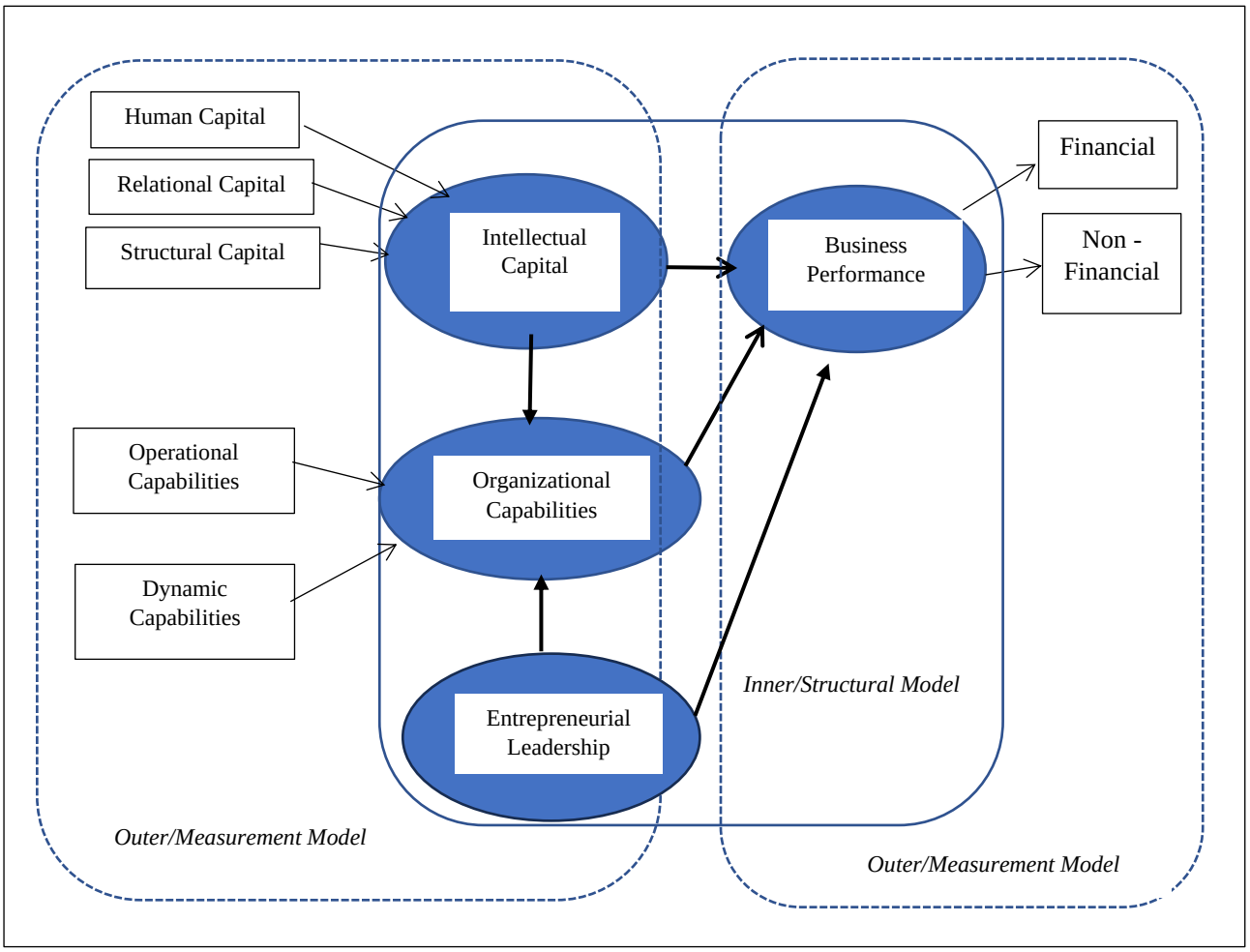

Figure 1 Research Framework

Based on the details of the framework in Figure 1, the components of the structural model (inner model) consist of organizational capabilities, intellectual capital, entrepreneurial leadership, and organizational capabilities are represented by a formative measurement model, while the construct of business performance is derived through a reflective measurement model.

This study addresses a gap in the existing literature on Organizational Behaviour by exploring the simultaneous influence of three specific intangible assets on microbusiness performance. The intellectual capital, organizational capabilities, and entrepreneurial leadership are relatively well-established and have been shown to significantly impact the performance of many medium and large enterprises. However, the effect of these assets on microenterprise performance remains underexplored. Therefore, this study contributes to the existing literature, particularly in the topic of business performance, by investigating the relevant intangible assets for microenterprises within the framework of the Resource-Based View (RBV) perspective.

Methodology

This study employed a quantitative research design, utilizing a survey approach to collect data from the target respondents.

Population and Sample

In the initial phase, a non-probability purposive sampling method was employed to identify agencies offering the entrepreneurial programs. Three agencies with such programs agreed to participate in the study. In the subsequent phase, the sampling frame was established, comprising all entrepreneurs who had participated in the entrepreneurial programs offered by the three selected agencies in 2021. The sampling frame, which included 118 entrepreneurs as detailed in Table 1, also constituted the study's population. A census method was employed to distribute the questionnaire to all entrepreneurs within the sampling frame, given the relatively small number of units in the frame and to minimize the risk of non-responses.

Table 1
Respondents Profiles

No.	Agencies	Program	Population Numbers	Number of participants respond
1	A	Program A	50	32
2	B	Program B1	10	10
		Program B2	10	10
3	C	Program C	48	48
	Total		**118**	**100**

The number of participants within the sampling frame was 50 for Program A, 10 for each of Programs B1 and B2, and 48 for Program C. In total, 100 respondents provided feedback, including 32 from Program A, 10 from Program B1, 10 from Program B2, and 48 from Program C. As detailed in Table 1, the response rate was 100 respondents, representing 84.75% of the sample.

Instruments and Analysis

The data for this study were measured using a questionnaire based on a 5-point Likert scale. The questionnaire was divided into seven sections, encompassing measurements for the variables of human capital, relational capital, structural capital, operational capabilities, dynamic capabilities, entrepreneurial leadership, and business performance. The data collected were analyzed using Partial Least Squares (PLS). PLS was selected as the analysis technique because it allows for simultaneous analysis of the relationships among each set of dependent variables in the model, unlike other multivariate techniques that typically analyze only single relationships between independent and dependent variables. Additionally, PLS is more flexible in handling issues related to small sample sizes, unlike regression techniques that require larger datasets and normal distribution of data. Consequently, PLS analysis is well-suited to the context of the conceptual framework and the study's data. The unit of analysis for this study was the micro-businesses participating in the programs of the selected agencies.

Research Findings

Demographic Profile of Respondents

Table 2 presents the demographic profile of the respondents. A total of 66% of the respondents were male, while 34% were female. Most respondents were aged 30 years or

younger, with 20% falling within the age range of 31 to 40 years. In terms of educational background, majority of respondents had attained at least a Malaysian Education Certificate (SPM) or Lower Secondary Assessment (PMR/PT3), accounting for 58% of the total respondents. Regarding prior work experience, 68% of the respondents had employment experience before entering the field of entrepreneurship. Of these, 54% had worked in the private sector, while 14% had experience in the public sector. Many respondents had worked for a period of 5 years or less before transitioning to entrepreneurship, with some having between 6 to 10 years of prior work experience. Additionally, 32% of the respondents had no prior work experience before venturing into entrepreneurship.

Table 2
Respondents Demographics Profiles

Demographic characteristics		**Frequencies n=100**	**Percentage (%)**
Gender	Male	66	66.0
	Female	34	34.0
Age	Below 30 yrs old	46	46.0
	31-40 yrs old	20	20.0
	41-50 yrs old	16	16.0
	51 yrs old and above	18	18.0
Highest Academic Qualifications	Masters	2	4.0
	Bachelors	7	7.0
	Diploma	13	13.0
	STPM/A Level/Matriculation	10	10.0
	Malaysian Education Certificate (SPM)	29	29.0
	PMR/PT3	29	29.0
	Primary school	2	2.0
Working experience	In private sector	14	14.0
	In public sector	54	54.0
	No working experience	32	32.0
Tenure of past working experience	5 years and below	30	30.0
	6-10 years	30	30.0
	11-20 years	2	2.0
	21-30 and above	6	6.0
	Do not worked	32	32.0

Table 3 presents the background profile of the respondents based on the information provided by their respective mentoring agencies. According to this data, most respondents received guidance/supports from the agencies for a period of 3 months or less, accounting for 52%, while 48% received mentorship over a period of 4 to 6 months. The forms of guidance/supports provided varied, with 68% of respondents receiving financial assistance, and 32% receiving training in business skills and knowledge.

Table 3
Summary of Information Related to Entrepreneurial Program Involved

		Frequencies	Percentage
Agencies	A	32	32.0
Name of Program	B	20	20.0
	C	48	48.0
	B1	10	10.0
	B2	10	10.0
	C	48	48.0
	A	32	32.0
Duration of Program	3 months and below	52	52.0
	4-6 months	48	48.0
Benefits obtained from the program	Capital aids	68	68.0
	Business skills courses/training	32	32.0

Table 4 presents information regarding the respondents' business profiles. The cumulative percentage of respondents with business experience of less than 6 years represents the majority, accounting for 67%. Furthermore, a comparison of the number of employees at the time of business commencement and in the current period reveals a trend of increasing numbers of businesses with both permanent and temporary employees. At the time of business start-up, the majority of respondents (78%) employed 5 or fewer permanent workers, a figure that decreased to 72% in the current period. A notable trend of growth is observed in the category of permanent employees, with 20% of respondents now employing between 6 to 10 permanent staff members, compared to just 10% at the time of business initiation. In terms of capital, there is an upward trend in business operation scale, with 56% of respondents reporting current capital levels of RM51,000 or more.

Table 4
Profiles of Respondents Business

Perkara	Catgeories	**Frequencies n=100**		**Cumulative Percetange (%)**
Main Business Activities	Food & Beverages	72		72
	Manufacturing	16		88
	Retails	12		100
Experience in Business	Less than 3 years	49		49
	4-6 years	18		67
	7-9 years	9		76
	More 10 years	24		100
		During start up	**Current**	
Numbers of permanent workers	5 and below	78	72	
	6-10	10	20	
	11-20	12	4	
Numbers of temporary workers	5 and below	23	39	
	None	**77**	61	
Capital	RM10,000 and below	79	56	
	RM11,000-RM20,000	4	31	

	RM21,000-RM30,000	8	13	
	RM51,000 and above	9	56	

Measurement Model

Table 5 presents the indicators of the measurement model to assess the reliability of the study's variables, which include Cronbach's Alpha (CA), Composite Reliability (rho_A), Composite Reliability (CR), Average Variance Extracted (AVE), and Variance Inflation Factors (VIF). The composite values of CA and CR are used to evaluate the internal consistency of the measurement instrument. According to Hair et al. (2017), values ranging from 0.60 to 0.70 are considered acceptable for exploratory studies. Based on the Cronbach's Alpha (CA) indicators, all constructs have achieved satisfactory CR values (i.e., exceeding 0.6), except for intellectual capital. The Average Variance Extracted (AVE) value reflects the extent to which a construct correlates positively with alternative measures for the same construct, which is referred to as convergent validity. An AVE value exceeding 0.5 indicates that the construct is able to explain more than half of the variance in the indicators.

Table 5
Reliability of Variables Measures

Construct	**Cronbach's alpha (CA) >0.6**	**Composite reliability (rho_a) >0.708**	**Composite reliability (rho_c) >0.708**	**Average variance extracted (AVE) >0.501**	**Collinearity Statistic (VIF) <0.2**
Dynamic capabilities	0.843	0.842	0.882	0.518	1.09
Operational capabilities	0.709	0.727	0.824	0.547	1.103
Entrepreneurial leadership	0.887	0.912	0.91	0.632	1.049
Relational capital	0.809	0.812	0.861	0.473	1.024
Human capital	0.862	0.873	0.916	0.785	1.025
Intellectual capital	**0.204**	0.209	0.652	0.386	1.039
Structural capital	0.807	0.832	0.868	0.573	1.049
Business performance	0.77	0.811	0.836	0.506	1.021

(level of CR: low= below 0.6, medium =0.6-0.7, high =0.7-0.9)

Additionally, construct validity was assessed through the evaluation of discriminant validity. The objective of assessing discriminant validity is to determine the extent to which a construct is genuinely distinct from other constructs, based on empirical benchmarks. In other words, a construct should be unique and not share substantial overlap with other constructs within the model. Discriminant validity is evaluated using the Fornell-Larcker criterion. **Table 6** illustrates the discriminant validity of the variables. This assessment is carried out by comparing the square root of the Average Variance Extracted (AVE) for each construct with the correlations between that construct and the other constructs, as presented in **Table 6**. Moreover, when employing the Heterotrait-Monotrait (HTMT) ratio, a value greater than 0.90 is required to confirm discriminant validity.

Table 6
Fornell-Lacker

Konstruk	KD	KOP	KO	KU	MH	MIN	MI	MS	PP
KD	**0.723**								
KOP	0.274	**0.739**							
KO	0.318	0.926	**1**						
KU	0.158	0.165	0.251	**0.795**					
MH	0.089	0.23	0.238	-0.079	**0.688**				
MIN	-0.012	-0.102	-0.07	0.042	0.123	**0.886**			
MI	0.134	0.171	0.216	0.073	0.703	0.613	**0.621**		
MS	0.236	0.202	0.266	0.215	0.105	0.109	0.575	**0.757**	
PP	0.009	0.208	0.267	0.036	0.024	0.042	0.297	0.104	**0.711**

Note:KD=Dynamic Capabilities; KOP=Operational Capabilities;,KO=Organizational Capabilities; KU= Entrepreneru Leadership; MH=Relatonal Capital; MIN= Human Capital; MI=Intellectual Capital; MS=Structural Capital; PP=Business Performance.

Variance Inflation Factors (VIF) are used to assess the convergent validity of formative outer model indicators. High correlation among formative indicators indicates the presence of collinearity issues. A VIF value exceeding 5 suggests a collinearity problem within the formative model indicators. Based on the VIF values presented in Table 5, no collinearity issues were identified in the formative model measurements for the study.

Structural Model

Table 7 presents the results of the analysis for the structural model, which involves the variables of intellectual capital, entrepreneurial leadership, organizational capability, and business performance. It was found that organizational capability is the intangible asset that significantly influences microbusiness performance, consistent with previous studies (Sabri et al., 2023; Ofori-Amanfo et al., 2022; Mongkol, 2022; Ebegbetale and Okon, 2022; Yu et al., 2022). Organizational capability has a weak but still significant effect on business performance ($\beta = 0.276$, $t = 2.038$, $p = 0.034$). The operational capability dimension is found to have a strong and significant relationship with organizational capability ($\beta = 0.888$, $t = 39.800$, $p = 0.000$), supporting the findings of Ofori-Amanfo (2022), who reported that the financial performance of MSEs is influenced by components related to zero-level capabilities. However, dynamic capability does not show a significant relationship with organizational capability ($\beta = 0.053$, $t = 1.290$, $p = 0.199$).

Entrepreneurial leadership does not significantly influence business performance ($\beta = -0.034$, $t = 0.215$, $p = 0.751$). Additionally, entrepreneurial leadership does not have an indirect relationship with business performance through the mediator of organizational capability ($\beta = 0.026$, $t = 1.356$, $p = 0.175$). This finding contrasts with previous studies, such as those by Al Mamun et al. (2018), Bagheri (2017), Rahim et al. (2015), and Jagdal and Bhola (2014), which identified a positive relationship between entrepreneurial leadership and the performance of

small-scale enterprises. The result is influenced by the specific context of this study. However, entrepreneurial leadership does have a significant positive relationship with organizational capability (β = 0.093, t = 2.224, p = 0.024).

Relational capital (β=0.594, t=4.732, p=0.000), human capital (β=0.490, t=2.311, p=0.021), and structural capital (β=0.459, t=2.341, p=0.019) all exhibit a significant positive relationship with intellectual capital. However, the positive relationships between the dimensions of human capital and intellectual capital, as well as between structural capital and intellectual capital, are weaker compared to the relationship between relational capital and intellectual capital. Intellectual capital does not show a significant relationship with organizational capability (β=0.050, t=1.227, p=0.233), nor does it have a significant relationship with business performance (β=0.00, t=0.000, p=1.000). Furthermore, intellectual capital does not have an indirect relationship with business performance through the mediator of organizational capability (β=0.014, t=0.983, p=0.325).

Table 7
Result of Relationship Analysis (Structural Model)

Construct	**Path Coefficient (β)**	**Mean**	**SD**	**t statistics >1.96**	**p values <0.05**	**F^2 >0.02**	**R^2**	**Results**
Dynamic capabilities -> Organizational capabilities	0.053	0.057	0.041	1.290	0.199	0.02		Weak positive and insignificant
Operational capabilities -> Organizational capabilities	0.888	0.884	0.022	39.800	0.000	5.562		Strong positive and significant
Organizational capabilities -> Business Performance	**0.276**	**0.294**	**0.135**	**2.038**	**0.034**	**0.074**		**Weak positive but significant**
Entrepreneurial leadership -> Organizational capabilities	0.093	0.091	0.042	2.224	0.024	0.065		Weak positive but significant
Entrepreneurial leadership -> Business performance	**-0.034**	**-0.035**	**0.157**	**0.215**	**0.751**	**0.001**		**Weak negative and insignificant**
Relational capital -> Intellectual capital	0.594	0.544	0.126	4.732	0.000	18.587		Medium positive and significant
Human capital -> Intellectual capital	0.490	0.439	0.212	2.311	0.021	12.636		Weak positive but significant
Strutural capital -> Intellectual capital	0.459	0.416	0.196	2.341	0.019	11.119		Weak positive but significant
Intellectual capital -> Organizational capabilities	0.050	0.044	0.041	1.227	0.233	0.019		Weak positive and insignificant
Intellectual capital -> Business performance	**0.000**	**0.005**	**0.116**	**0.000**	**1.000**	**0.000**		**Weak positive and insignificant**

Intellectual capital -> Organizational capabilities -> Business performance	0.014	0.012	0.014	0.983	0.325		Weak positive and insignificant
Entrepreneurial leadership -> Organizational capabilities -> Business performance	0.026	0.027	0.019	1.356	0.175		Weak positive and insignificant
Organizational capabilities						0.865	
Intellectual capital						0.983	
Entrepreneurial leadership						0.061	
Business performance						0.070	

Note: The bold item refers to relationships presents the inner/structural model as depicted in Figure 1 illustration

Figure 2 illustrates the structural model obtained from the analysis. The R^2 value for the formative model of organizational capability indicates that operational capability and dynamic capability can explain 86.5% of the variance in organizational capability. Meanwhile, the formative model of intellectual capital, comprising human capital, structural capital, and relational capital, can explain 98.3% of the variance in intellectual capital. Furthermore, the business performance model, which is explained by the factors of organizational capability, intellectual capital, and entrepreneurial leadership, accounts for only 7% of the variance in micro-business performance

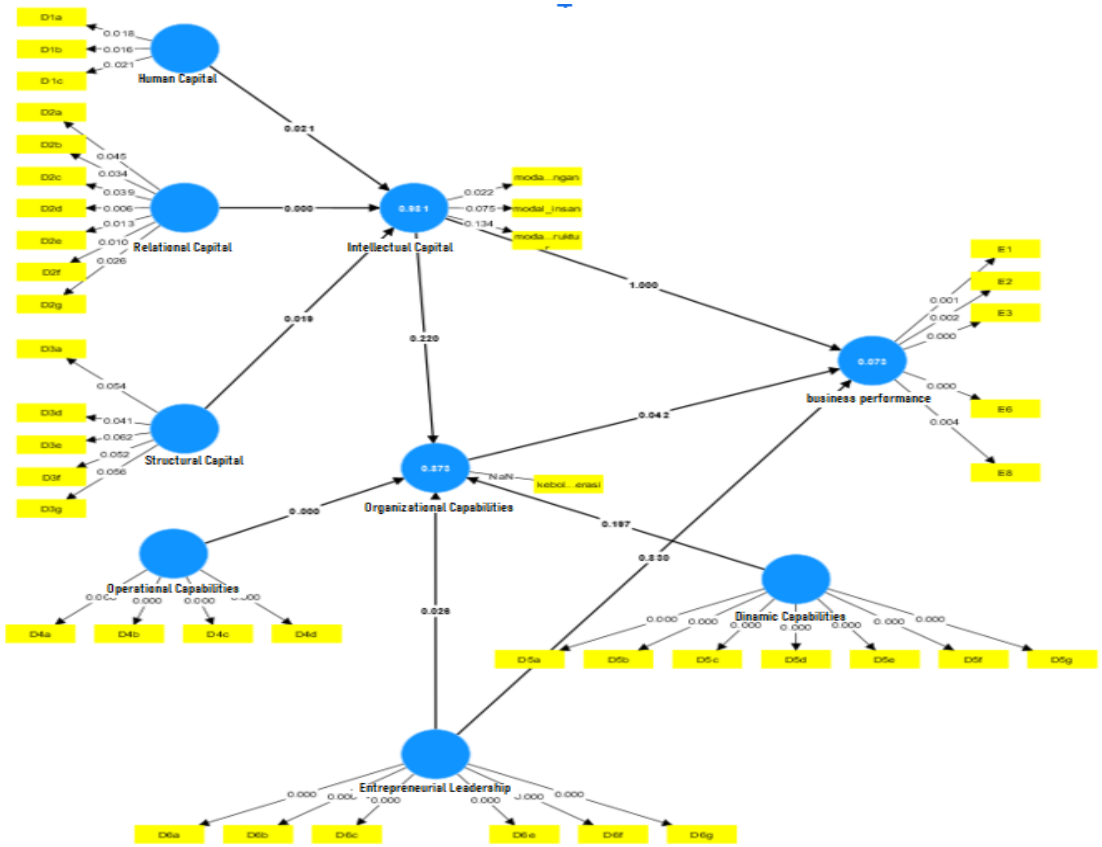

Figure 2 Structural ModelDiscussion

Organizational capability has been identified as a significant determinant of business performance among micro-entrepreneurs participating in agency-led entrepreneurial programs. This finding is consistent with the conclusions drawn in prior studies, including those by Kumar (2024), Prester (2023), Sabri et al. (2023), Ofori-Amanfo et al. (2022), Mongkol (2022), Yu et al. (2022), Kamasak (2017), Hsu and Wang (2012), Wang and Hsu (2010), and Hassan et al. (2017). The results suggest that higher organizational capability correlates positively with improved business performance. As posited by the Resource-Based View (RBV) theory, organizations that possess and develop distinctive capabilities gain a competitive edge (Kero and Bogale, 2023; Nguyen, 2024). For instance, an organization that excels in maintaining product quality, rapidly adapts to market changes, anticipates customer needs, and develops products aligned with consumer preferences enjoys a significant competitive advantage, leading to increased sales revenue. These strengths are often difficult to replicate by competitors, thus enhancing profitability.

The positive influence of organizational capability in this context can be attributed to the dimension of operational capability. Operational capability refers to a business's capacity to manage and address current operational challenges effectively. This finding aligns with the research conducted by Kumar (2024), Ofori-Amanfo et al. (2022), and Yu et al. (2022). Given that the majority of the businesses involved are still in the early growth and local expansion stages, the entrepreneurial programs have focused on enhancing operational efficiency and effectiveness at these initial stages, specifically addressing market dynamics and optimizing existing resources to strengthen competitive positioning. In contrast, dynamic capabilities—defined as a firm's ability to adjust or expand its current state through organizational learning that results in innovation and commercially viable advancements—have not been fully

developed within the scope of this study. This observation contrasts with findings from Mongkol (2022) and Ebegbetale and Okon (2022), which demonstrated a significant relationship between dynamic capabilities, such as adaptability, innovation, and absorptive capacity, and the performance of micro-enterprises in Thailand and Nigeria. The dynamic capability phase typically requires substantial financial investment and higher levels of organizational competence to foster innovation and transformation. Furthermore, specialized knowledge, particularly in research and development (R&D), is essential to support the development of dynamic capabilities. As such, the lack of a pronounced dynamic capability in this study can be attributed to the focus on local operational expansion and serving an existing customer base, rather than pursuing broader innovative initiatives. Additionally, it is important to note that many of the entrepreneurs involved in this study are engaged in the food and beverage sector, which may further influence the development of dynamic capabilities.

While intellectual capital demonstrates a positive relationship with micro-business performance, this relationship is not statistically significant in influencing business outcomes. This suggests that intellectual capital, which is formed through the integration of human, relational, and structural capital, represents an intangible asset that has the potential to influence business performance, as underscored by the Resource-Based View (RBV). However, the influence of intellectual capital remains insufficiently robust to drive a notable improvement in micro-business performance. This is primarily due to the underdeveloped nature of these elements within the context of micro-enterprises. As a result, intellectual capital does not yet exert a significant direct impact on business performance, nor does it indirectly affect performance through organizational capability. In the current setting, intellectual capital has not yet strengthened the operational capabilities required to enhance business performance.

Intellectual capital is composed of three dimensions: human capital, relational capital, and structural capital. Among these, relational capital was found to have a strong and significant positive relationship with the formation of intellectual capital in micro-businesses, compared to human and structural capital. Despite this, the quality of relational capital in micro-businesses remains at a relatively low level, limiting its capacity to significantly affect business performance. For example, many business networks are formed with stakeholders who have limited influence within the industry, thereby weakening the potential impact of relational capital on business performance.

Human and structural capital also exhibit positive relationships with business performance, but these effects are weak. This can be attributed to the specific context of the micro-businesses, where informal organizational structures dominate, and the business operations often revolve around a "one-man show" model. Business owners typically make decisions based on individual judgment, and business and personal matters are not sufficiently separated. Consequently, decisions tend to be reactive, poorly planned, and not strategically aligned. In addition, human capital, or employees, often lack the necessary skills to make a meaningful contribution to business performance. They tend to focus primarily on executing routine tasks and are generally more comfortable following instructions from the owner/manager, rather than engaging in proactive, strategic decision-making that could enhance overall performance.

Entrepreneurial leadership has yet to exert a direct impact on business performance, particularly due to the relatively young age of many entrepreneurs, with the majority being under 30 years old. In addition, many entrepreneurs have limited prior work experience before venturing into business. This context helps explain the insignificant effect of entrepreneurial leadership on business performance, as the entrepreneurs' limited experience and leadership skills hinder their ability to lead effectively. The negative relationship observed between entrepreneurial leadership and business performance suggests that higher levels of entrepreneurial leadership are associated with lower business performance. This indicates that the leadership styles currently practiced are ineffective in supporting the enhancement of business performance, largely due to the absence of appropriate and relevant leadership characteristics and skills within the existing business context.

Moreover, the lack of a significant direct effect of entrepreneurial leadership on business performance can also be attributed to the characteristics of micro-businesses, where the workforce is small, and most employees do not possess an entrepreneurial mindset. Many employees lack the necessary skills and knowledge, or they are part-time workers who are less committed to achieving business goals collectively. As a result, they do not respond effectively to entrepreneurial encouragement or motivation, even when provided by the entrepreneur. Consequently, the micro-business owner often assumes the role of a supervisor, overseeing the routine tasks performed by employees. Entrepreneurial activities, such as exploring new opportunities, proactively strategizing, and taking calculated risks, are limited to the entrepreneur's scope of existing operations and not oriented towards strategic innovation.

This situation further highlights that while entrepreneurial leadership is recognized as a key strategic asset for enhancing operational capabilities within organizations, it has yet to make a significant indirect impact on business performance through the mediation of operational capabilities.

Conclusion

Based on the Resource-Based View (RBV) perspective, this study assumes that there is a relationship between organizational capability, intellectual capital, and entrepreneurial leadership towards the business performance of entrepreneurs involved in various government agency mentoring programs. The analysis results show that organizational capability is a factor influencing business performance. Among the dimensions significantly related to organizational capability, operational capability is more relevant than dynamic capability. This finding is consistent with the characteristics of the study respondents, where the majority are still in the early growth phase, and most of the mentoring focuses on strengthening businesses during this early stage.

However, intellectual capital and entrepreneurial leadership did not show a significant relationship with microbusiness performance. This can be explained by considering the context and characteristics of intellectual capital and entrepreneurial leadership within the entities involved. The implications of this study show that RBV is suitable for explaining the role of intangible assets in influencing microbusiness performance, particularly in the context

of agency mentoring. Strategic intangible assets, as outlined by RBV, can be developed within micro-scale businesses.

Additionally, the relevant factor for enhancing the efficiency and effectiveness of microbusiness operations during the early stages of establishment and growth is operational capability. Future studies on microbusiness performance and organizational capability are recommended to incorporate operational capability into the model instead of dynamic capability. From a practical perspective, mentoring programs should be tailored to the age and developmental stage of the business. Furthermore, agency mentoring should focus on helping entrepreneurs build intangible assets that are beneficial in supporting their business performance.

Acknowledgements
This research is written based on the study conducted under the FRGS research project funded by the Malaysia Ministry of Higher Education, with grant code FRGS/1/2020/SS02/UKM/02/4.

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