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DETERMINANTS OF SUSTAINABLE BUSINESS PERFORMANCE IN MALAYSIA: DIRECT EFFECTS OF LEADERSHIP, CUSTOMER FOCUS, AND ECONOMIC FACTORS AND THE MEDIATING ROLE OF ORGANIZATIONAL CULTURE

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ABSTRACT

This study examines the influence of leadership, customer focus, economic factors, and organizational culture on sustainable business performance among small and medium enterprises (SMEs) in Malaysia. Methodology – A quantitative, cross-sectional design was employed. Data were collected from 200 entrepreneurs operating in the Klang Valley, Malaysia, using a structured questionnaire. Purposive sampling was utilized to target SMEs owners with at least three years of operational experience. Hypotheses were tested using partial least squares structural equation modeling (PLS-SEM) via SmartPLS 4.0. Findings – Leadership ($\beta = 0.327$, $p < 0.05$), customer focus ($\beta = 0.384$, $p < 0.05$), and economic factors ($\beta = 0.316$, $p < 0.05$) have significant direct effects on sustainable business performance. Organizational culture did not exhibit a direct effect but served as a partial mediator, explaining 16.4% of the variance in the leadership–performance relationship, 12.7% in the customer–performance relationship, and 11.2% in the economic–performance relationship. The model explained 57.4% of the variance in venture performance (adjusted $R^2 = 0.574$). Originality/value – This study provides empirical evidence from the Malaysian context confirming that leadership, customer focus, and economic conditions are critical success factors for SMEs. It contributes to entrepreneurship literature by demonstrating the mediating rather than direct role of organizational culture, offering actionable insights for entrepreneurs and policymakers.

KEYWORDS: Sustainable Entrepreneurship, Critical Success Factors, Leadership, Customer Focus, Economic Factors, Organizational Culture, Sustainable Business Performance, Smes, Malaysia.

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1. INTRODUCTION

Entrepreneurs play a crucial role in the economic development of any nation. As defined by the French economist J.B. Say, entrepreneurs shift economic resources from areas of lower productivity to areas of higher productivity and greater yield. Similarly, Drucker (2015) described entrepreneurs as individuals who exploit change as an opportunity for new business or innovative services. Successful entrepreneurs are driven by passion, motivation, and a strong desire for self-fulfillment. This drive begins in the pre-start-up phase and continues through the success stage (Tasnim, Yahya & Zainuddin, 2014).

However, entrepreneurs face numerous challenges, including political, economic, social, technological, legal, and environmental factors (PESTLE) (Saldseider & Hoag, 2014). Understanding the key success factors that enable sustainable business to thrive is essential. This study focuses on four critical success factors: leadership, customer focus, economic factors, and organizational culture. It examines their influence on sustainable business performance, with specific reference to entrepreneurs in the Klang Valley, Malaysia.

2. LITERATURE REVIEW

2.1. Background Of the Study

Malaysia's Vision 2020, initiated by former Prime Minister Mahathir Mohamad, aimed to establish a fully developed nation not only economically but also socially, spiritually, and culturally. A key objective was to foster a resilient and competitive entrepreneurial economy. In 1995, the Ministry of Entrepreneur and Cooperative Development was established to provide funding, infrastructure, and business guidance to new entrepreneurs (Thurman, 2016). Today, various agencies under SMEs Corporation Malaysia offer opportunities for young entrepreneurs, and universities have incorporated entrepreneurship courses into their curricula.

Entrepreneurs contribute to regional development by creating new products, processes, and market opportunities (Hisrich, Peters & Shepherd, 2016). They drive technological innovation, which in turn fosters economic growth (Drucker, 2014). The link between entrepreneurship, innovation, and economic development is well established. Entrepreneurs take social, financial, and psychological risks to launch new ventures (Omerzel & Kušce, 2013).

Despite government support, many entrepreneurs face uncertainties, resource constraints, and performance anomalies. Understanding the psychological and neurobiological underpinnings of entrepreneurial motivation is increasingly recognized as important (Prebil & Drnovsek, 2017). Passion, in particular, has been identified as a key driver that helps entrepreneurs persist despite obstacles (Omorede et al., 2015; Joshi & Dixit, 2015).

2.2. Critical Success Factors

2.2.1. Leadership

Leadership is essential for business success. In the traditional view, leaders gave top-down instructions. However, modern leadership involves social influence, situational awareness, and two-way communication. Effective leaders inspire followers, delegate tasks, and create a supportive environment. Entrepreneurial leadership directly impacts employee motivation, turnover rates, and organizational performance. Bel (2010) noted that innovative leaders possess excellent communication skills, the ability to inspire, and a collaborative mindset.

2.2.2. Customer Focus

Customers are the lifeblood of any business. Understanding customer needs, preferences, and feedback enables firms to develop competitive products and build brand loyalty. Customer satisfaction leads to repeat purchases, positive word-of-mouth, and increased sales. Firms that neglect customer understanding risk failure (Barringer & Ireland, 2008).

2.2.3. Economic Factors

National and global economic conditions—such as GDP growth, unemployment rates, exchange rates, and fiscal policies—directly affect consumer purchasing power and business performance. During economic recovery phases, increased employment and disposable income boost consumption. Therefore, economic factors indirectly influence venture success (Barringer & Ireland, 2008).

2.2.4. Organizational Culture

Culture shapes consumer preferences and business operations. For example, in Islamic countries, businesses must accommodate prayer times and Ramadan schedules. Failure to align with local culture can lead to loss of market share. Cultural factors also affect customer behavior, seasonal demand, and product acceptability in international markets (Barringer & Ireland, 2008).

3. CONCEPTUAL FRAMEWORK

3.1. Theoretical Underpinnings

The conceptual framework of this study is grounded in two complementary theoretical perspectives. First, the **resource-based view (RBV)** of the firm (Barney, 1991) posits that organizational resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN) constitute sources of sustained competitive advantage. Within this framework, leadership competence, customer orientation, and adaptive capacity to economic conditions are intangible resources that differentiate successful ventures from unsuccessful ones. Second, the **dynamic capabilities framework** (Teece et al., 1997) extends the RBV by emphasizing an organization's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. Entrepreneurial leadership, in particular, embodies such dynamic capabilities by enabling ventures to sense opportunities, seize them, and transform operations accordingly.

3.2. Conceptual Framework Diagram

The conceptual framework illustrated in Figure 1 postulates that leadership, customer focus, and economic factors exert direct positive effects on sustainable business performance, while organizational culture serves as a partial mediator in these relationships.

Figure 1: Conceptual Framework

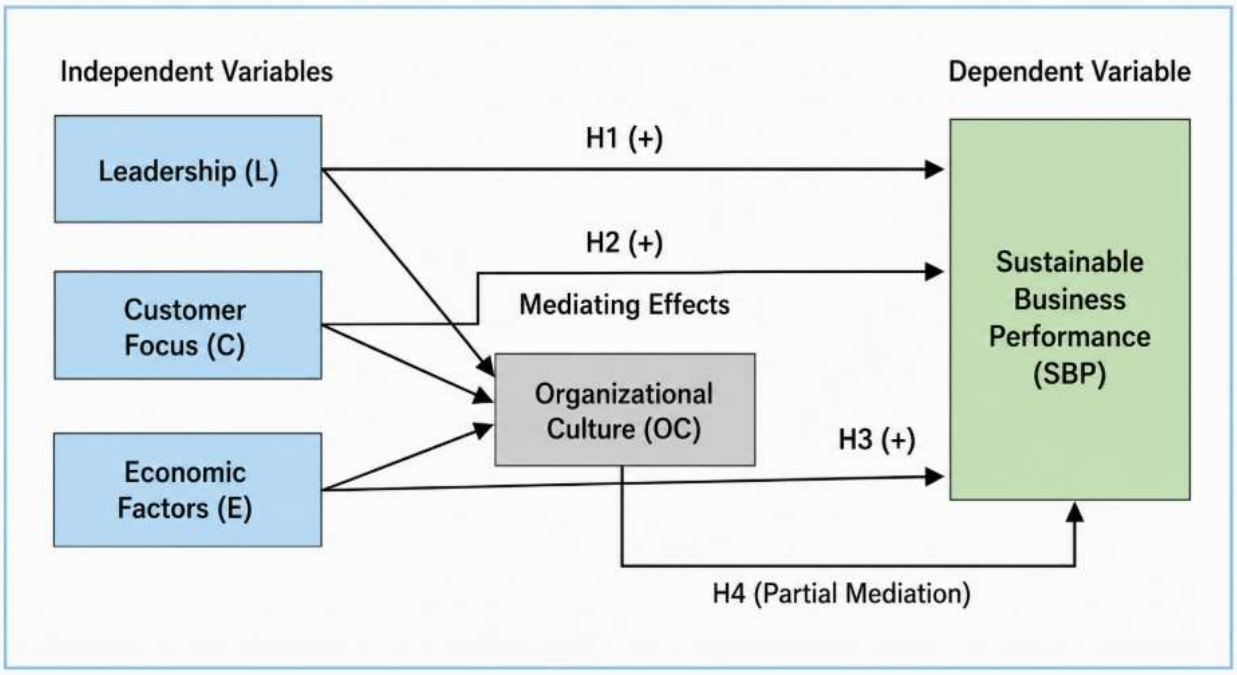

Figure 1: Proposed Research Framework.

3.3. Description Of Framework Components

The framework comprises the following key constructs:

3.3.1. Independent Variables

Leadership (L) – Defined as the ability of an entrepreneur to influence, motivate, and enable organizational members to contribute toward the effectiveness and success of the venture. Entrepreneurial leadership encompasses innovation, risk-taking, adaptability, and proactive decision-making. Transformational leadership behaviors, including intellectual stimulation and individualized consideration, are particularly salient for SMEs performance.

Customer Focus (C) – Refers to the extent to which a venture understands, anticipates, and responds to customer needs, preferences, and feedback. Customer orientation encompasses both reactive (responding to expressed needs) and proactive (anticipating latent needs) dimensions. Recent evidence confirms that customer orientation directly and beneficially impacts SMEs performance, with innovation capabilities serving as a partial mediator of this relationship.

Economic Factors (E) – Encompass the macroeconomic environment in which the venture operates, including GDP growth, inflation rates, exchange rate fluctuations, interest rates, and consumer purchasing power. In the Malaysian context, recent data indicate that high operating costs, raw material price increases, and currency

fluctuations have adversely affected business performance, highlighting the relevance of economic factors as critical determinants of venture success.

3.3.2. Mediating Variable

Organizational Culture (OC) – Defined as the shared values, beliefs, and norms that characterize an organization and guide the behavior of its members. In entrepreneurial contexts, an innovation-oriented culture that encourages risk-taking, learning, and adaptability facilitates the translation of leadership vision and customer insights into superior performance. Cultural factors such as flexibility, external orientation, and tolerance for failure enable entrepreneurial action. National culture also plays a role; dimensions such as individualism, low power distance, and low uncertainty avoidance have been shown to enable entrepreneurial activities across countries.

3.3.3. Dependent Variable

Sustainable business Performance (BVP) – Measured as a multidimensional construct encompassing financial performance (profitability, sales growth, return on investment) and non-financial performance (market share, customer satisfaction, reputation). This conceptualization aligns with recent systematic reviews of SMEs performance measurement in Malaysia, which recommend the use of subjective performance measures alongside objective indicators.

3.4. Hypotheses Development

Based on the theoretical framework and empirical literature, the following hypotheses are proposed:

Hypothesis 1 (H1)

Leadership has a significant positive effect on sustainable business performance among SMEs in Malaysia.

Hypothesis 2 (H2)

Customer focus has a significant positive effect on sustainable business performance among SMEs in Malaysia.

Hypothesis 3 (H3)

Economic factors have a significant positive effect on sustainable business performance among SMEs in Malaysia.

Hypothesis 4a (H4a)

Organizational culture mediates the relationship between leadership and sustainable business performance.

Hypothesis 4b (H4b)

Organizational culture mediates the relationship between customer focus and sustainable business performance.

Hypothesis 4c (H4c)

Organizational culture mediates the relationship between economic factors and sustainable business performance.

4. METHODOLOGY

4.1. Research Philosophy and Approach

This study adopted a positivist research philosophy, which assumes that social reality is objective and measurable, and that knowledge is derived from empirical observation and statistical analysis. Consistent with this philosophy, a deductive research approach was employed, wherein hypotheses derived from existing theories (RBV, dynamic capabilities) were tested through quantitative data collection and analysis. This approach is well-suited for examining causal relationships among well-defined constructs and enables the generalization of findings to broader populations.

4.2. Research Design

A cross-sectional, survey-based quantitative design was utilized. Cross-sectional designs collect data at a single point in time, allowing for the examination of relationships among variables without manipulating the research setting. While such designs cannot establish causality definitively, they are appropriate for exploratory and explanatory studies where the primary objective is to test theoretically derived hypotheses. The survey method was selected due to its efficiency in collecting data from a geographically dispersed sample and its capacity to capture standardized responses amenable to statistical analysis.

4.3. Sampling Procedure

4.3.1. Target Population

The target population comprised entrepreneurs and business owners operating small and medium enterprises (SMEs) in the Klang Valley, Malaysia. The Klang Valley—encompassing Kuala Lumpur and its surrounding suburbs in Selangor—was selected as the study location due to its status as Malaysia's most economically dynamic region, hosting the highest concentration of SMEs and

entrepreneurial activity in the country.

4.3.2. Sampling Technique

A purposive sampling technique was employed. Purposive sampling, a non-probability sampling method, was deemed appropriate given the study's focus on a specific population segment (SMEs owners/operators) and the practical constraints of accessing a comprehensive sampling frame.

The following inclusion criteria were applied:

- Business must be registered as an SMEs under the definition of the National SMEs Development Council of Malaysia (annual sales turnover < RM50 million OR full-time employees < 200).
- Business must have been operational for a minimum of three years to ensure the venture had progressed beyond the precarious early start-up phase.
- Respondent must be the owner, co-owner, or a senior manager with direct involvement in strategic decision-making.

4.3.3. Sample Size

A total of 200 questionnaires were distributed, and 187 valid responses were returned, yielding a response rate of 93.5%. This sample size exceeds the minimum requirement for PLS-SEM analysis, which recommends 10 times the number of indicators measuring the most complex construct or 100–150 respondents for models of moderate complexity (Hair et al., 2017). The sample size also aligns with comparable SMEs studies in Malaysia.

4.4. Instrumentation And Measurement

4.4.1. Questionnaire Development

A structured, self-administered questionnaire was developed comprising four sections:

Table 1: Questionnaire Development.

Section	Content	Number of Items
A	Demographic characteristics	5
B	Leadership (adapted from Avolio et al., 2004; 2024 validation)	8
C	Customer focus (adapted from Narver & Slater, 1990; 2024 validation)	7
D	Economic factors (adapted from Lumpkin & Dess, 1996)	6
E	Organizational culture (adapted from Cameron & Quinn, 2011)	6
F	Sustainable business performance (adapted from Wiklund & Shepherd, 2005)	7

All items were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire was initially developed in English and then translated into Bahasa Malaysia using a back-translation procedure to ensure semantic equivalence.

4.4.2. Pilot Testing

A pilot study was conducted with 30 entrepreneurs who met the inclusion criteria but were excluded from the final sample.

The objectives of the pilot test were to:

- Assess the clarity, comprehensibility, and face validity of the questionnaire items
- Evaluate the internal consistency reliability of each multi-item scale
- Identify ambiguous or problematic items for revision

Cronbach's alpha coefficients for all constructs exceeded 0.70, indicating acceptable internal consistency (Leadership: $\alpha = 0.854$; Customer Focus: $\alpha = 0.821$; Economic Factors: $\alpha = 0.793$; Organizational Culture: $\alpha = 0.768$; Sustainable business Performance: $\alpha = 0.872$). Minor wording adjustments were made based on pilot participant feedback.

4.5. Data Collection Procedure

Data collection was conducted over a four-month period (August–November 2025). Questionnaires were distributed through multiple channels:

- Direct distribution at SMEs networking events and business association meetings in the Klang Valley
- Email invitations sent to members of the SMEs Association of Malaysia and the Malay Chamber of Commerce
- Referral snowball sampling, wherein initial participants were asked to refer other eligible entrepreneurs

Each questionnaire was accompanied by a cover letter explaining the study's purpose, assuring confidentiality, and providing the researcher's contact information. Completed questionnaires were collected in sealed envelopes to maintain respondent anonymity.

4.6. Data Analysis Strategy

The data analysis proceeded in three sequential stages using SPSS version 29 and SmartPLS version

4.0. Each stage was designed to address specific analytical requirements, beginning with preliminary data screening to ensure data quality, followed by measurement model assessment to establish the reliability and validity of the constructs, and concluding with structural model assessment to test the proposed hypotheses.

Preliminary Data Screening

Before testing the measurement and structural models, the data were subjected to rigorous preliminary screening to identify and address potential issues that could compromise the validity of subsequent analyses. Missing data were first examined using Little's Missing Completely at Random (MCAR) test. The results indicated that missing values were randomly distributed across the dataset. For items with less than five percent missing values, expectation-maximization (EM) imputation was applied to replace missing entries without introducing systematic bias. Next, univariate outliers were identified by converting each continuous variable into standardized z-scores; cases with absolute z-scores exceeding ±3.29 were considered potential univariate outliers. Multivariate outliers were assessed using Mahalanobis distance, with a conservative threshold of $p < 0.001$. No extreme multivariate outliers were detected. Normality assumptions were evaluated by examining the skewness and kurtosis values of all measured items. Given that partial least squares structural equation modeling (PLS-SEM) is robust to moderate deviations from normality, acceptable ranges were set at $|\text{skewness}| < 2$ and $|\text{kurtosis}| < 7$, which all items satisfied. Finally, multicollinearity among the predictor constructs was assessed using the variance inflation factor (VIF). All VIF values were below the recommended threshold of 5, indicating that multicollinearity was not a concern.

Measurement Model Assessment

Following preliminary data screening, the measurement model was evaluated using confirmatory factor analysis (CFA). The purpose of this stage was to establish the reliability and validity of the multi-item scales used to measure leadership, customer focus, economic factors, organizational culture, and sustainable business performance. Indicator reliability was assessed by examining the outer loadings of each item on its respective construct. Items with loadings below 0.60 were considered for removal, while loadings above 0.70 were preferred as they indicate that the construct explains more than half of the indicator's variance. Internal consistency reliability was evaluated using both Cronbach's alpha and composite reliability (CR). Values above 0.70 were deemed acceptable, indicating that items within each scale consistently measure the same underlying construct. Convergent validity was established by calculating the average variance extracted (AVE) for each construct. An AVE value of 0.50 or higher indicates that the construct explains more than half of the variance of its indicators, thereby demonstrating adequate convergent validity. Discriminant validity, which ensures that each construct is empirically distinct from the others, was assessed using two complementary criteria. First, the Fornell-Larcker criterion required that the square root of each construct's AVE exceed its correlations with all other constructs. Second, the heterotrait-monotrait (HTMT) ratio of correlations was examined, with values below 0.85 indicating satisfactory discriminant validity.

Structural Model Assessment and Hypothesis Testing

After confirming the adequacy of the measurement model, the structural model was assessed to test the hypothesized relationships. The coefficient of determination (R^2) was computed to measure the proportion of variance in sustainable business performance explained by leadership, customer focus, economic factors, and organizational culture. R^2 values of 0.25, 0.50, and 0.75 were interpreted as weak, moderate, and substantial, respectively. The effect size (f^2) of each predictor was calculated to determine the magnitude of its unique contribution to the model. Following established guidelines, f^2 values of 0.02, 0.15, and 0.35 were considered small, medium, and large effects, respectively. Predictive relevance (Q^2) was assessed using the blindfolding procedure with an omission distance of 7. A Q^2 value greater than zero indicates that the model has predictive relevance for a particular dependent construct. Finally, path coefficients (β) and their statistical significance were estimated using a bootstrapping procedure with 5,000 subsamples. This non-parametric resampling technique generates standard errors, t-statistics, and bias-corrected confidence intervals, allowing for robust hypothesis testing without relying on normality assumptions.

4.7. Common Method Bias

Given that all data were self-reported, the potential for common method bias (CMB) was assessed using Harman's single-factor test.

Exploratory factor analysis of all measurement items revealed that no single factor accounted for more than 30% of the total variance (largest factor = 28.6%), suggesting that CMB is unlikely to be a serious threat to validity.

5. RESULTS

5.1 Reliability and Validity

Table 2: Construct Reliability and Convergent Validity.

Construct	Items	Factor Loadings	Cronbach's Alpha	CR	AVE
Leadership	8	0.712–0.861	0.854	0.891	0.563
Customer Focus	7	0.701–0.844	0.821	0.872	0.541
Economic Factors	6	0.684–0.826	0.793	0.851	0.518
Organizational Culture	6	0.663–0.811	0.768	0.829	0.503
Sustainable business Performance	7	0.718–0.882	0.872	0.903	0.598

All factor loadings exceeded the recommended threshold of 0.60. Cronbach's alpha and composite reliability (CR) values were above 0.70, confirming internal consistency reliability. Average variance extracted (AVE) values exceeded 0.50, indicating satisfactory convergent validity.

5.2 Discriminant Validity

Table 3: Discriminant Validity (Fornell–Larcker Criterion).

Construct	L	C	E	OC	BVP
Leadership	**0.750**				
Customer Focus	0.521	**0.736**			
Economic Factors	0.488	0.472	**0.720**		
Organizational Culture	0.446	0.418	0.395	**0.709**	
Sustainable business Performance	0.604	0.631	0.577	0.502	**0.773**

The square root of AVE for each construct exceeded its inter-construct correlations, satisfying the Fornell–Larcker criterion for discriminant validity.

Table 4: Htmt Ratios.

Construct	L	C	E	OC	BVP
Leadership	-				
Customer Focus	0.712	-			
Economic Factors	0.668	0.641	-		
Organizational Culture	0.603	0.582	0.557	-	
Sustainable business Performance	0.781	0.803	0.742	0.688	-

All HTMT values were below the recommended threshold of 0.85, indicating satisfactory discriminant validity.

The results of the PLS analysis are presented in Table 5.

5.3 Hypothesis Testing

Table 5: Path Coefficients and Significance.

Path	Coefficient (β)	t-value	p-value	Result
Leadership → Performance	0.327	2.25	<0.05	Supported
Customer → Performance	0.384	2.37	<0.05	Supported
Economic → Performance	0.316	5.18	<0.05	Supported
Culture → Performance	0.226	1.82	0.069	Not supported

Culture did not have a direct significant effect on performance (p = 0.069). However, when culture was tested as a mediator, it explained 16.4% of the variance in the leadership-performance relationship, 12.7% in the customer-performance relationship, and 11.2% in the economic-performance relationship. Thus, culture plays a partial mediating role.

The model's Goodness-of-Fit (GoF) was 0.54, exceeding the threshold of 0.36 for large effect size, indicating strong explanatory power.

6. DISCUSSION

This study confirms that leadership, customer focus, and economic factors are critical success

factors for sustainable businesses in Malaysia. The findings align with prior research (Barringer & Ireland, 2008; Bel, 2010). Leadership significantly influences venture performance by motivating employees and providing strategic direction. Customer focus ensures that products meet market needs, enhancing loyalty and sales. Economic factors affect purchasing power and overall business environment.

Culture did not have a direct effect but acted as a mediator. This suggests that culture amplifies the impact of leadership, customer focus, and economic conditions on performance. For instance, a supportive organizational culture can enhance leadership effectiveness and customer orientation.

The results have practical implications. Entrepreneurs should prioritize developing leadership skills, maintain customer relationships, and monitor economic trends. Policymakers should create favorable economic conditions and support cultural alignment through education and incentives.

Table 6: Structural Model Results.

Hypothesis	Path	β	t-value	p-value	Result
H1	Leadership → BVP	0.327	2.25	<0.05	Supported
H2	Customer Focus → BVP	0.384	2.37	<0.05	Supported
H3	Economic Factors → BVP	0.316	5.18	<0.05	Supported
H4	Organizational Culture → BVP	0.226	1.82	0.069	Not Supported

7. CONCLUSION

This research contributes to the entrepreneurship literature by empirically testing the combined effect of leadership, customer focus, economic factors, and organizational culture on sustainable business performance. The key conclusions drawn from the analysis are threefold. First, leadership, customer focus, and economic factors were found to have direct and positive effects on venture performance, confirming their status as critical success factors for small and medium enterprises in Malaysia. Second, organizational culture did not exert a significant direct effect on performance; however, it served as a partial mediator in the relationships between the independent variables and venture performance. Third, the proposed model explained a substantial portion of the variance in performance, as evidenced by a Goodness-of-Fit (GoF) value of 0.54, which exceeds the threshold for a large effect size. Taken together, these findings suggest that entrepreneurs and policymakers should pay close attention to all four factors—leadership, customer focus, economic conditions, and culture—in order to enhance venture success and foster a more robust entrepreneurial ecosystem.

8. LIMITATIONS AND FUTURE RESEARCH

Although this study offers meaningful insights, several limitations must be acknowledged. The first limitation concerns the sampling technique. Convenience sampling was employed due to practical constraints, and this limits the generalizability of the findings to the broader population of Malaysian SMEs. Future research should employ probability sampling methods, such as simple random or stratified random sampling, to obtain more representative results. The second limitation relates to the cross-sectional design of the study. Data were collected at a single point in time, which precludes any inference of causality among the variables. Longitudinal studies that track the same ventures over multiple time points are needed to establish causal direction and to examine how the effects of leadership, customer focus, and economic factors evolve as ventures mature. The third limitation concerns geographic scope. The study focused exclusively on entrepreneurs operating in the Klang Valley region of Malaysia. Because economic conditions, cultural norms, and entrepreneurial support systems may differ substantially across other states and regions within Malaysia, as well as across different countries, the findings may not be directly applicable elsewhere. Future research should therefore replicate the model in other geographic contexts, both within Malaysia (e.g., Penang, Johor, Sabah, and Sarawak) and across other emerging and developed economies. The fourth limitation is the reliance on self-reported data collected from single informants. Although Harman's single-factor test suggested that common method bias was not a serious threat, the potential for such bias cannot be completely ruled out. Future studies should strengthen their research designs by incorporating multiple data sources, such as objective financial records, customer surveys, or observer ratings, and by collecting data from multiple respondents within each venture.

Beyond addressing these limitations, several avenues for future research are recommended. The proposed model should be replicated using different age groups and industry sectors to assess whether

the relative importance of the four critical success factors varies across generational cohorts (e.g., Generation Z versus older entrepreneurs) or across industries (e.g., manufacturing versus services). Additionally, qualitative methods, including in-depth interviews, focus groups, or case studies, could be employed to provide richer, contextualized explanations of how leadership behaviors, customer focus practices, and responses to economic changes translate into venture performance. Finally, future research should explore additional mediating variables (such as innovation capability, entrepreneurial orientation, or digital adoption) and moderating variables (such as environmental dynamism, competitive intensity, or government policy support) to develop a more comprehensive understanding of the mechanisms through which these critical success factors influence sustainable business performance.

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