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# The Role of Knowledge on ASEAN Economic Community in Enhancing the Performance of Vietnamese Enterprises

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## Abstract

ASEAN Economic Community (AEC) was established in 2015 from 10 countries to realize the ultimate (adopted in 1997), which aimed to transform ASEAN into a stable, prosperous, and highly competitive region with equitable economic development, reduced poverty, and socioeconomic disparities. The purpose of this paper is to examine the effect of knowledge level on the AEC of Vietnamese small and medium enterprises (SMEs) in the textile and apparel industry towards attitudes, readiness, and performance. This study uses convenience sampling to get questionnaires from 150 SMEs in Hanoi, Vietnam. Then, the paper applies SPSS-AMOS 24 to process data. The empirical results show that AEC's implementation only has a small impact on improving SME performance. However, SMEs have adequate knowledge, attitude, and readiness about AEC. The structural modeling findings indicate that the knowledge factor has an indirect effect on SMEs' performance. This finding is to provide new insight into the roles of attitude and readiness in the case of Vietnam. These factors are needed to mediate the effect of attitudes and readiness in the relationship between knowledge and business performance, a framework strategy of business organizations, and can be used as a conceptual model to improve SMEs' performance.

**Keywords:** ASEAN Economic Community, Small and Medium Enterprises, SMEs' Performance, Vietnam

**JEL Classification Code:** M10, M12, M19

## 1. Introduction

On January 1, 2016, the world's seventh-largest economy, the Association of Southeast Asian Nations ("ASEAN"), inaugurated the ASEAN Economic Community ("AEC"). The AEC aims to create a single market and production base for the free flow of goods, services, investment, capital, and skilled labor within ASEAN. The new community offers expanded opportunities and inevitable challenges for multinationals investing in this diverse but often opaque market. This would allow businesses to make investments,

enhance facilities, and compete more broadly. Policy changes brought about in the ASEAN countries with the implementation of the AEC have helped improve the economy of each country.

The impact of AEC has not yet been perceived by the parties that would benefit from it. There is a need to review Vietnam's readiness because its preparation for the AEC has not been considered optimal. For the SMEs in Vietnam, the AEC would deliver the momentum to improve the quality of goods and services provided, because it will directly or indirectly prune the distribution budget to achieve faster and cheaper delivery of goods. Therefore, if addressed properly, adopting the AEC can be a step in the right direction for SMEs in Vietnam. This opportunity can be maximized if SMEs improve in terms of capacity and business strategy.

SMEs have the highest potential to create stable growth in the Vietnamese economy. However, with the enactment of the AEC, competition can become fierce. Hence, SMEs need to have comprehensive knowledge about the AEC and design effective strategies to deal with. The majority of AEC-related research has focused on business organization readiness towards the AEC (Mahendrawathi et al., 2014; Theingi & Mon, 2010; Kunanoppadol, 2015; Tran, 2015;

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Siriphattrasophon, 2015; Rifai et al., 2016; Ho, 2016; Irjayanti et al., 2016) while studies on the impact of the AEC on SMEs' performance do not yet exist. Therefore, to address this gap, recent studies have analyzed the AEC's impact on company performance, and such assessment or evaluation is associated with the readiness of SMEs.

The current study aims to explore the following: 1) SMEs' understanding of the AEC as a concept that includes a free market of goods and services, as a production factor in the ASEAN region, and as an investment area for the ASEAN countries. The creation of a single market is implemented by integration with the global economy; 2) SMEs' attitude toward implementing the AEC; 3) SMEs' readiness to implement the AEC, and 4) the AEC's impact on SMEs' performance. The findings from this study will hopefully provide useful suggestions for SMEs to improve their business governance by increasing their capacity and capability to enable them to be increasingly competitive, use the new opportunities, and thus, show a demonstrated improvement in their performance.

In Vietnam, SMEs serve as a vehicle to create jobs for local communities. The government of Vietnam has identified and prioritized the development of SMEs as one of its strategic objectives (Le et al., 2020a). Among the SMEs in Vietnam, the textile and apparel industry plays an important role in driving the national economy, apart from fulfilling the needs of domestic clothing. These SMEs boost the national economy through entrepreneurial growth. They are job providers and foreign exchange contributors. For SMEs to fiercely compete in the market to increase their competitive advantage, managers should increase knowledge of the targeted market (Hoa et al., 2020). They form one of the strategic sectors whose development needs to be prioritized because they contribute significantly to the national economy. Besides, the labor intensiveness of the export-oriented sector can be a social safety net because it absorbs a workforce that is estimated to be around two million people.

## 2. Literature Review and Hypothesis

### 2.1. SMEs of Vietnamese Textile and Apparel Industry

In recent years, Vietnam's textile and garment industry has continuously developed positively, achieving export growth each year higher than the previous year. In 2019, textile and apparel export turnover will reach about US\$ 39 billion, up by 9.61% over the same period in 2018. Despite high growth and the development of global trade, there are potential risks that necessitate the industry to have solutions to cope with.

In terms of export markets, the United States is still the largest market of Vietnam. In 2019, export turnover

was estimated at US\$ 14.22 billion, up by 12.84% over the same period, followed by the member countries of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) reaching US\$ 5.07 billion, up by 11.13%, (Japan alone reached US\$ 2.79 billion, up by 5, 6%); EU reached 4.1 billion US\$, up by 10.46% and South Korea reached 2.7 billion US\$, up by 5.59%.

Although achieving satisfactory results, Vietnam's textile and apparel industry is facing difficulties and challenges, namely, US-China trade tensions are affecting the exchange rate between currencies and commodity prices. In Vietnam, compared to some countries in the region such as Korea and China, this led to impacting export orders, especially for textile products. Accordingly, some enterprises have only had 70% of new orders compared to the same period in 2019. Especially, the export of yarn and raw materials faces many difficulties because the main export market is China (accounting for 60%) had cut back on imports.

In addressing the issues regarding the implementation of the AEC, the Vietnamese government ordered for (a) the implementation of the AEC blueprint; (b) increasing national competitiveness in the face of the AEC; and (c) forming a National Committee in preparation for the AEC. To enhance the national competitiveness and preparedness of the SMEs, the development strategy included (1) increasing competitiveness by providing financing, (2) developing SMEs to increase their competitive capability, and (3) empowering the SMEs through marketing facilitation. Thus, SMEs became the focus of development among businessmen in the wake of the enactment of the AEC in 2016.

### 2.2. SMEs' Knowledge Regarding AEC

An assessment of the AEC is important to provide perspectives for SMEs to demonstrate the quality of their workforce. SMEs' knowledge of the AEC is a subjective understanding, which includes knowledge of the four pillars, as well as the opportunities and the perceived threats from the AEC. SMEs' understanding of the AEC will reflect the knowledge and understanding of the textile and apparel SMEs in Vietnam about the AEC. In Vietnam, the managers' knowledge also might have impacts on information quality and the effectiveness of the management information systems in SMEs (Le et al., 2020b).

### 2.3. Actions Taken by SMEs When Facing the AEC

With the enactment of the AEC in 2016, SMEs in Vietnam were required to prepare for the AEC along with all other countries in the region. Since Vietnam has a variety of products, it was optimistic about competing in the region.

## 2.4. SMEs' Readiness Toward AEC

In response to the implementation of the AEC, most SMEs have begun to make changes because they are aware that a successful business must be prepared for the impact of change and adapt to its environment. Organizational readiness indicates the relationship between people, processes, systems, and performance measurement. It requires synchronization and coordination without which no implementation will be successful. Therefore, organizational readiness is essential for surviving external environments and competition. SMEs that prepare and adapt themselves can expand their market, increase sales, expand production to reduce the cost of units, and achieve economies of scale. While overseas production-based displacement is difficult for most SMEs because foreign investment requires significant expenditure and is subject to many rules and regulations, readiness appears to be the most popular solution for SMEs to face changes in the environment. They use several methods to adapt to the change, such as adding product value and reducing costs, including labor costs.

## 2.5. SMEs' Performance

SMEs' performance is a measure of their business success that will help them plan for future expansion. Lucky and Minai (2011) suggested that the performance measures for SMEs could be both financial and non-financial. These performance measures, helping to create stakeholder value, can use financial approaches, which include sales, market share, profitability, return on assets, and stock prices, while non-financial approaches include employee commitment, customer satisfaction, and customer loyalty (John & Cumby, 2001). The measurement of performance variables in this study included sales growth, market share growth, and increase in profitability, number of customers, area of marketing, and customer satisfaction.

## 2.6. Hypotheses

The AEC is a major environmental variable included in globalization and regional economic integration. This environmental change would affect the attitudes and behaviors of both small and large companies (Shah & Shah, 2010). Successful SMEs adapt or prepare themselves for the changes in their environment. Therefore, SMEs must prepare themselves to survive in a changing external environment. To do this, they need to have the requisite knowledge to prepare themselves and achieve a sustainable competitive advantage (Argote et al., 2003; Cameron & Quinn, 1999).

Knowledge is the ability to know and respond to changing environments in a better way and one of the factors that can affect the success of a business (Omerzel & Antoncic, 2008;

Bhatti et al., 2011). It is also an important organizational asset for maintaining a competitive edge (Carlucci et al., 2004). Therefore, knowledge of the AEC is a strategic asset that must be identified, obtained, shared, and used so that it can contribute to improving organizational performance (Chenhall & Langfield-Smith, 1998). Thus, considering that knowledge can affect the performance of a business, the following hypotheses are proposed as shown below:

**H1:** *Knowledge of the AEC has a positive effect on SMEs' performance.*

With the implementation of the AEC, companies need to analyze, adapt, and make adjustments so that they can be more productive and profitable. Thøgersen et al. (2010) showed that knowledge positively influences adaptation to change. The ability to adapt to the environment is a knowledge-based ability and a potential source of a company's competitive advantage (Ferreira et al., 2010). Thus, knowledge is not only positively related to individual beliefs but also strong attitudes, leading to the second and third hypothesis:

**H2:** *Knowledge of the AEC has a positive effect on SMEs' readiness.*

**H3:** *SMEs' readiness mediates the relationship between knowledge of the AEC and SMEs' performance.*

Knowledge of the AEC is related to attitudes, more specifically to beliefs and experiences that are relevant for facing the AEC (Biek et al., 1996). Extensive research has been conducted on building knowledge relevant to attitude (Converse, 1969; Rosenberg et al., 1960). Thus, knowledge of the AEC is a structural property of attitude, whereas attitude is a function of a number of beliefs and experiences (Erber et al., 1995; Fabrigar et al., 2006). Knowledge and information about the AEC affect attitude to create awareness among individuals and to change attitudes, which further lead to behavioral change. Therefore, the following research hypotheses are proposed:

**H4:** *Knowledge of the AEC has a positive effect on SMEs' attitudes.*

**H5:** *SMEs' attitude mediates the relationship between SMEs' knowledge and SMEs' readiness toward the AEC.*

**H6:** *SMEs' attitude mediates the relationship between SMEs' knowledge and SMEs' performance.*

Attitudes help determine how the situation is and how the behavior with regard to the situation must be. Although feelings and beliefs of attitude are internal, they are reflected in the behavior they generate. Attitudes influence decisions, guide behaviors, and influence memory selectively. Attitudes are learned or influenced by experience. Experience, or the

lack of it, affects attitude. Furthermore, attitude is a source for creating readiness in the face of change (Eby et al., 2000; Holt et al., 2007). The tendency to have negative or positive attitudes toward the validity of the AEC affects the readiness of SMEs in adjusting to environmental change. Therefore, the next hypothesis is proposed as follows:

**H7:** *SMEs' attitude has a positive effect on SMEs' readiness.*

Experts on change state that the human aspect is instrumental in the process and the success of a change. One's reaction and attitude in the face of change need to be observed for planned changes and anticipated reactions, impacts, and results (Wilson et al., 2000). Additionally, attitude functions as a guideline and behavioral facilitator (Fishbein & Ajzen, 1975), which then creates a motivational effect of identification with the work or organization (Meyer et al., 2004; Riketta, 2008). Therefore, the next hypotheses are proposed as follows:

**H8:** *SMEs' attitude has a positive effect on SMEs' performance.*

**H9:** *SMEs' readiness mediates the relationship between SMEs' attitude and SMEs' performance.*

Readiness toward the AEC 2016 was imperative for SMEs to use opportunities and minimize potential threats. The implementation of the AEC 2016 could give rise to both opportunities and threats (Tullao & Hin, 2012) for local SMEs, who should be prepared for these. By understanding the role of SMEs as a business group that has the largest numbers and dominates the Vietnamese economy, the success of the AEC in 2016 would also be influenced by SMEs' readiness (Rifai et al., 2016). If the companies were not prepared, the AEC in 2016 had the potential to cause instability, especially regarding competition with products from neighboring countries. Vietnamese SMEs' readiness to face the AEC challenge had to be strengthened by internal resources. They needed to adapt to this change by using an internal SME strategy. Madsen et al. (2003) revealed that a person's physical and mental readiness has a significant influence on their actions. Therefore, the last hypothesis is proposed as follows:

**H10:** *SMEs' readiness has a positive effect on SMEs' performance.*

### 3. Research Method and Materials

#### 3.1. Measurement

The measurement model refers to an implicit or explicit model that connects a latent variable with its indicator. The latent variables in this study used multi-indicators whose

nature is reflective. Questionnaires are developed through a review of the literature related to knowledge, attitudes, readiness, and performance (for example, previous research, and other secondary data such as textbooks, research papers, and academic journals).

The question items concerning the knowledge about the AEC were developed from the AEC Blueprint (ASEAN, 2008) including the following six dimensions: (1) free flow of goods/services, (2) free flow of investment, (3) free flow of capital, (4) free flow of skilled labor, (5) expansion of market opportunities, and (6) easier sourcing of raw materials.

The questions about the SMEs' attitude toward AEC were developed with five items on attitude or support toward (1) the AEC in general, (2) freedom of goods and services, (3) freedom of skilled labor flow, (4) freedom to establish a company in the ASEAN region, and (5) freedom to obtain raw materials. The questions about SME's readiness were developed with eight items, namely: (1) product-generating capability, (2) efforts to improve product quality, (3) ability to compete with products of the ASEAN countries, (4) readiness to enforce product price changes, (5) attempts to innovate, (6) readiness to change marketing strategies, (7) readiness to increase production capacity, and (8) readiness to increase capital. The SMEs performance in this study is subjectively measured based on managers' perception of their company's performance compared to their performance before the AEC, using six items: (1) sales growth, (2) market share, (3) profit, (4) number of customers, (5) marketing area, and (6) customer satisfaction.

#### 3.2. Data Collection

This is a descriptive cross-sectional study using independent paper-based surveys. Its target population is SME textile and apparel entrepreneurs in Hanoi-Vietnam. To ensure proper unit analysis, responses to the questionnaires were collected from the SME owners or their authorized managers voluntarily. All questionnaires were completed, thus providing the 150 responses for analysis.

#### 3.3. Data Analysis

Data analysis included a descriptive analysis of the characteristics of respondents, such as their place of business, gender, age, education, and the number of employees. To test the extent of the measurement model and structural model as per the sample data in this analysis, structural equation modeling (SEM) was used. Measurement models were tested using confirmatory factor analysis (CFA), while SEM was used to test the relationship between the latent variables. In evaluating the match, some goodness-of-fit indexes were used: goodness-of-fit index, normal fit index, comparative fit index, Tucker-Lewis index (TLI), root mean square error of approximation (RMSEA), and stats  $\chi^2$ .

## 4. Results and Discussion

### 4.1. Respondents’ Characteristics

The characteristics of the respondents, such as district, age, gender, and education are presented in detail in Table 1. Details of the demographic profile of the respondents show that 71.3% ( $n = 107$ ) were male and 28.7% ( $n = 56$ ) were over 46 years old. About 59.3% ( $n = 89$ ) have high school education qualifications.

### 4.2. Validity and Reliability

The validity of the convergence determined by the average variance extracted (AVE) of all the AVE values is more than 0.60, which is above the cut-off value ( $>0.50$ ). This can therefore be considered a statistically significant model. From Table 1, it is clear that the confirmatory factor of all items of the four constructs has a loading factor above 0.4. To measure the internal consistency between

items, the reliability analysis was conducted by calculating Cronbach’s alpha. Table 2 indicates that Cronbach’s alpha value is greater than 0.70, showing remarkable consistency among items (Nunnally, 1978).

### 4.3. Fitness of the Model

The goodness-of-fit of the model was analyzed using the Goodness-of-Fit Index (GFI), Tucker Lewis Index (TLI), Root Mean Square Error of Approximation (RMSEA), and the chi-square index. Data analysis results show acceptable matches, with GFI = 0.871, TLI = 0.994, RMSEA = 0.020, and CMIN/df = 1.058.

### 4.4. Hypotheses Testing

Hypothesis testing was conducted through SEM. First, the analysis showed the positive effect of knowledge on attitude and readiness with an estimated value of 0.870 (prob: 0.000) and 0.507 (prob: 0.00). Conversely, the effect of knowledge on performance was not significant with the value of the estimate being  $-0.105$  (prob: 0.615). Thus,  $H_2$  and  $H_4$  were accepted, while  $H_1$  was rejected. Second, the analysis of the effect of attitude on readiness and performance shows an estimated value of 0.299 (prob: 0.010) and 0.392 (prob: 0.029). Thus,  $H_7$  and  $H_8$  were accepted. Third, the effect of readiness on performance resulted in an estimate of 0.642 (prob: 0.028). Thus,  $H_{10}$  was accepted. Fourth, the mediation effects of readiness and attitude were calculated using Sobel’s test, as shown in Table 4. From the results, it was clear that attitude was the bridge to the relationship between knowledge and readiness, with an estimated value of 0.260 (prob: 0.012). Additionally, attitude could bridge the relationship between readiness and performance as well, with an estimated value of 0.341 (prob: 0.032). These results support  $H_5$  and  $H_6$ . The role of readiness in bridging the relationship between attitude and performance was estimated as 0.366 (prob: 0.048) while bridging the relationship between attitude and performance was estimated as 0.191 (prob: 0.109). Thus,  $H_3$  was accepted, while  $H_9$  was rejected.

The study revealed the knowledge and attitudes of textile and apparel SME owners in Hanoi-Vietnam toward the AEC. Table 2 shows that they have moderate knowledge (average: 3.16) about economic integration in the ASEAN region after the AEC came into force, although the Vietnamese government has disseminated information about it. Their attitude toward the AEC is neutral (average: 3.14) and their readiness is inadequate (average: 3.19). Additionally, the impact of the AEC on the performance of SMEs is average (average: 3.09). Although the AEC is expected to increase competitiveness through the expansion of trade and investment in countries that have abundant resources and lower production costs, the reality is far from this, showing only a slight increase.

**Table 1:** Respondents’ Characteristics

Variables	Class	Frequency	Percentage
District	Hoan Kiem	3	2.0
	Hoang Mai	52	34.7
	Dong Da	36	24.0
	Nam Tu Liem	28	18.7
	Bac Tu liem	31	20.7
	Total		150
Age	≤25	5	3.3
	26–30	8	5.3
	31–35	23	15.3
	36–40	20	13.3
	41–45	38	25.3
	>46	56	37.3
Total		150	100.0
Gender	Male	107	71.3
	Female	43	28.7
	Total	150	100.0
Education	Primary school	11	7.3
	Junior high school	17	11.3
	Senior high school	89	59.3
	Bachelor	32	21.3
	Master	1	0.7
Total		150	100.0

**Table 2:** Measurement Model

Measurement	Item	Mean	Standard Deviation	Loading	AVE	Cronbach's Alpha
SMEs' knowledge about AEC	Knowledge-1	3.11	0.710	0.885	0.693	0.931
	Knowledge-2	3.09	0.704	0.859		
	Knowledge-3	3.17	0.746	0.847		
	Knowledge-4	3.15	0.763	0.812		
	Knowledge-5	3.23	0.709	0.768		
	Knowledge-6	3.23	0.734	0.819		
Average		3.16	–	–		
SMEs' attitude toward AEC	Attitude-1	3.17	0.718	0.761	0.620	0.891
	Attitude-2	3.15	0.772	0.813		
	Attitude-3	3.09	0.695	0.777		
	Attitude-4	3.13	0.757	0.784		
	Attitude-5	3.19	0.745	0.802		
Average		3.14				
SMEs' readiness toward AEC	Readiness-1	3.23	0.677	0.809	0.614	0.927
	Readiness-2	3.29	0.738	0.795		
	Readiness-3	3.16	0.705	0.793		
	Readiness-4	3.23	0.709	0.777		
	Readiness-5	3.20	0.676	0.770		
	Readiness-6	3.19	0.699	0.757		
	Readiness-7	3.13	0.717	0.794		
	Readiness-8	3.16	0.656	0.774		
Average		3.19				
Performance	Performance-1	3.11	0.691	0.781	0.627	0.909
	Performance-2	3.15	0.708	0.807		
	Performance-3	3.03	0.660	0.836		
	Performance-4	3.07	0.734	0.777		
	Performance-5	3.11	0.667	0.766		
	Performance-6	3.08	0.710	0.782		
Average		3.09				

Table 3 shows that knowledge about the AEC had a significant influence on owners' attitudes. The more knowledge or experience related to the AEC they had, the better was their attitude in responding to the AEC. Therefore, increased experience and knowledge result in a positive attitude toward the free flow of foreign workers, freedom of investment, and freedom to obtain raw materials. SEM proves that attitude is significantly influenced by the acquisition of knowledge (coefficient: 0.870). However, attitude is a function of several related beliefs and experiences

(Erber et al., 1995). Furthermore, a positive attitude affects SMEs' readiness toward the AEC (coefficient equals 0.299). This result is consistent with the fact that one's attitude in the face of change needs to be known to plan the changes and the reaction and anticipate the impact and outcome of the changes (Wilson et al., 1995).

The study also illustrated how readiness toward the AEC positively affected performance after enactment. These results are consistent with the literature that reveal that the readiness factor has a significant impact on the ability

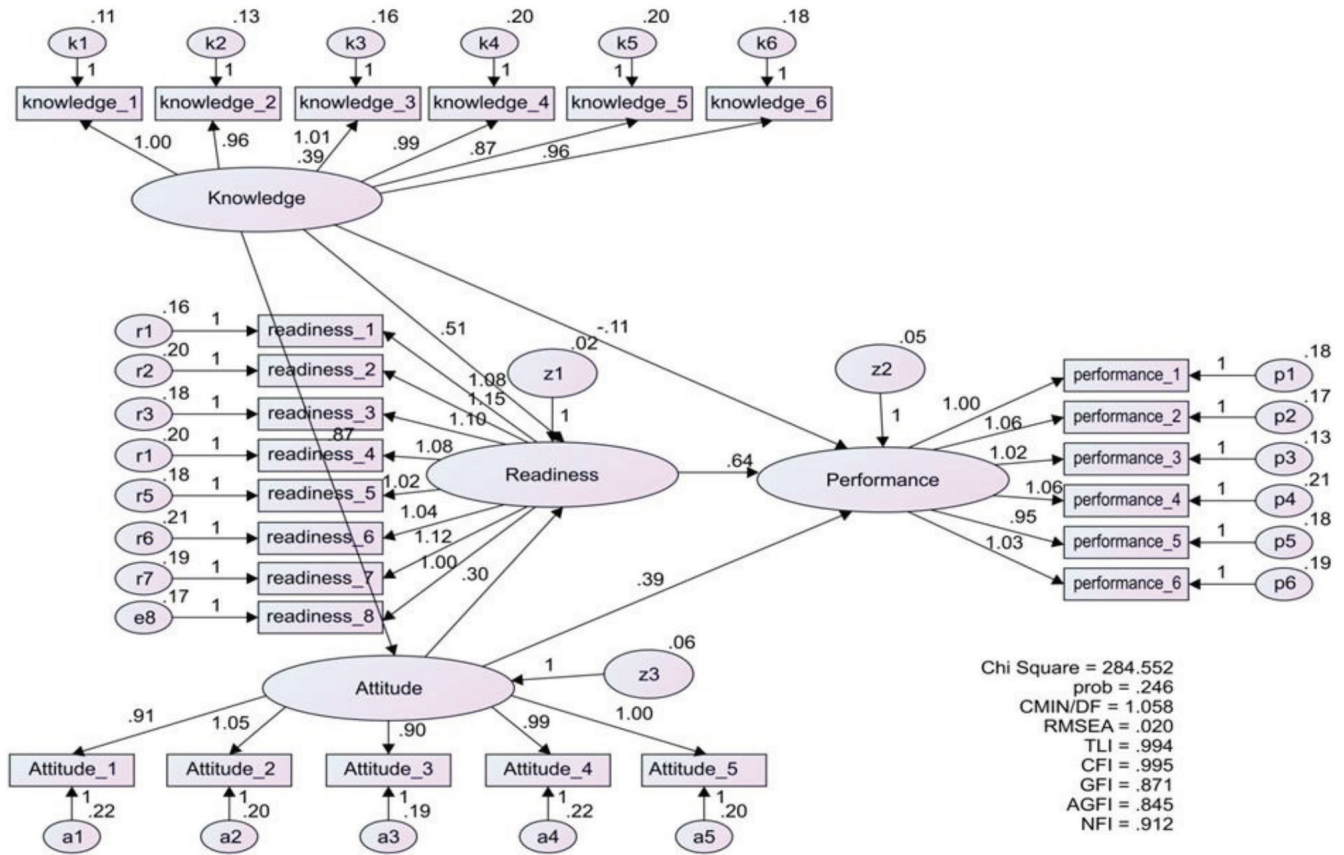


Figure 1: Coefficient of Path

Table 3: Structural Model

	Estimate	C.R.	Prob.	Conclusion
Direct effect				
Performance ← Knowledge	-0.105	-0.503	0.615	H <sub>1</sub> Rejected
Readiness ← Knowledge	0.507	4.522	***	H <sub>2</sub> Accepted
Attitude ← Knowledge	0.870	11.271	***	H <sub>4</sub> Accepted
Readiness ← Attitude	0.299	2.576	0.010	H <sub>7</sub> Accepted
Performance ← Attitude	0.392	2.182	0.029	H <sub>8</sub> Accepted
Performance ← Readiness	0.642	2.191	0.028	H <sub>10</sub> Accepted
Indirect effect				
Performance ← Readiness ← Knowledge	0.366	1.972	0.048	H <sub>3</sub> Accepted
Readiness ← Attitude ← Knowledge	0.260	2.513	0.012	H <sub>5</sub> Accepted
Performance ← Attitude ← Knowledge	0.341	2.138	0.032	H <sub>6</sub> Accepted
Performance ← Readiness ← Attitude	0.191	1.601	0.109	H <sub>9</sub> Rejected

to mentally and physically prepare for immediate action (Madsen et al., 2003). Conversely, knowledge does not directly affect SMEs' performance. These results contradict the opinion that knowledge is one of the factors that could affect the success of a business (Omerzel & Antoncic, 2008; Jin et al., 2010; Huovinen & Tihula, 2008; Kropp et al., 2008). However, the degree of knowledge could enhance SMEs' performance indirectly through intervening variables (attitudes and readiness), which is in accordance with the literature that states the role of knowledge in relation to environmental issues as an important indirect determinant of pro-environmental behavior (Bamberg & Möser, 2007). Furthermore, the attitudes and readiness of SMEs toward the AEC can affect their performance.

Although some organizations have been instituted to promote SMEs' development in Indonesia, most of the SMEs do not have enough business competition capacity compared to large companies, who have an advantage in terms of management and reputation, funding, sales volume, market share, access to information, innovation, and technology (O'Cass & Weerawardena, 2009). It is therefore important for SMEs to learn and develop their capacity to be able to compete in the free market in the ASEAN region. The government can also help promote SMEs to develop in a highly competitive environment by providing information, knowledge, and training related to the implementation of the AEC. The findings show that most SMEs do not have a high level of knowledge, attitude, and readiness. This indicates that the government is not yet functioning optimally in assisting SMEs to take advantage of the existing opportunities related to the 2016 AEC implementation.

## 5. Conclusion and Suggestions

The results showed that knowledge about the AEC has a direct influence on SMEs' attitudes and readiness toward the AEC. The higher the knowledge about the AEC, the more positive is their attitude and readiness toward the AEC. Further, SMEs' attitudes toward the AEC can directly affect their readiness and performance. Conversely, knowledge about the AEC has no direct effect on SMEs' performance. The role of the mediating variables shows that SMEs' attitudes and readiness toward AEC are able to partially mediate the relationship between SMEs' knowledge and performance.

However, this study has shown that information dissemination about the AEC has not reached expectations, which is demonstrated by the fact that most SMEs still lack knowledge about the AEC; they are not positive toward it and do not possess readiness, thus making its impact on performance less than maximal. To resolve this problem, the government should focus more on training SME owners regarding the management of their business and investment.

This will allow them to gain in-depth knowledge and information from experts. Besides, the government's efforts can help implement policies and regulations that help SMEs possess the right knowledge, attitude, and preparation for the upcoming AEC implementation. This would not only enhance their capacity and competitiveness but also promote ASEAN's economic power in the global market.

The results of this study can contribute to the literature related to companies' ability to adapt to changes in the environment. The paper findings provide new insight into the roles of attitudes and readiness. The paper verifies the influence of SMEs' knowledge of the AEC on performance in the textile and apparel industry.

These results, however, cannot be generalized as they can only be interpreted based on the number and type of SMEs. The research should be applied to SMEs from other industries other than the textile and apparel industry. Besides, the measurement of knowledge variables, the attitude, and readiness of SMEs toward AEC has been taken from the perception analysis of respondents as per the assessment scale of questions in the questionnaire. It is necessary to use other methodologies, such as qualitative techniques, which allow resource analysis based on theoretical views and organizational category levels for a more holistic perspective. It is also necessary to develop the construct and other variables that complement the capability, attitude, readiness, and performance of businesses, especially internal factors of SMEs such as company age, owner experience, and the magnitude of the company as moderating variables.

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