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Business Success in Malaysian SMEs: A Quantitative Approach

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Design: The study embraced a quantitative approach in order to validate the underlying conceptual framework, developed from a systematic literature review, and to increase some bits of knowledge on the perceptions of managers. Questionnaire was distributed to 365 industrial SMEs that were selected from the official website of the Ministry of International Trade and Industry and the Free Industrial Zone Malaysia.

Findings and Conclusions: Results of the quantitative study validated the underlying conceptual framework. It was discovered that the internal factors, for example, age, size, and area of the business; age, education, family foundation, and experience of the entrepreneur; managerial and utilitarian competences of the entrepreneur; and need for achievement and hazard taking propensity of the entrepreneur were correlated with business success. Then again, accessibility of finance, tax assessment, access to technology, access to networking and access to customers and suppliers were the identified correlated external factors. These findings provided bolster for the development of an underlying contextual model that features the effect of internal and external factors on business success.

Keywords: *SME; critical success factors; entrepreneurship; malaysia; strategic management.*

GJMBR-A Classification: *JEL Code: M10*



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Business Success in Malaysian SMEs: A Quantitative Approach

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Limitations: Findings of the study remain limited and ought to be circumspectly interpreted since the perceptions about business success factors, derived from the literature in different contexts, were imposed on respondents. This did not permit an enough understanding of participants‟ worldview of the vital factors in the specific context of Malaysia which may be different from other contexts.

Originality/Value: This is perhaps among very few studies that address the issue of private venture success in the context of Malaysia and especially in the selected areas in Malaysia.

Keywords: SME; critical success factors; entrepreneurship; malaysia; strategic management.

I. Introduction

The importance of SMEs is well recognized in academic and arrangement literature. Much attention and interest have been devoted to SMEs by several researchers, international associations and arrangement makers, in any event since the Bolton report (1971). Both developed and developing countries have realized the importance of SMEs in the economic and social development. In Europe, the yearly report of European SMEs confirmed that SMEs remain the European Union's economic backbone despite the worldwide money related emergency (The European Commission, 2011). Representing 99.8 per cent everything being equal, SMEs contribute to 66 per cent of employment in the European Union.

Beyond any uncertainty, SMEs in Malaysia assume a critical role in the development of the nation. The importance of SMEs is evidenced by their high presence in the economic structure of the nation. As indicated by The United Nations Economic Commission for Africa (UNECA) (2008), 93% of all Malaysian modern firms are SMEs and record for 38% of creation, 38% of investment, 31% of exports and 45% all things considered. The extreme north-west of Malaysia is considered to be the second mechanical center after Kuala Lumpur and the primary modern city in the Industrial region, producing SMEs represents over portion of the aggregate firms in the region and contribute to 83% of employment. However, despite their value in the regional economy, their commitment to the modern value added remains limited with respect to the national economy. Recent available data from the MITI showed that the commitment of the Industrial region to the mechanical value added was just 7% of every 2016 compared to 49% in the Kuala Lumpur region (MITI, 2011). This does not reflect the potential of the SME sector especially after the recent remarkable economic developments in the Industrial region. Furthermore, despite the government efforts in advancing the business environment, these efforts remain limited. As per the regional report (2016) of the World Bank, Malaysia is considered to be a troublesome area with respect to the regulations affecting four stages of a business life: beginning a business, dealing with development permits, registering property, and enforcing contracts.

While trying to address this issue, the present study has been undertaken with the intent to achieve the accompanying objectives with respect to the success of SMEs in the city of Malaysia:

1. To identify the perceived critical success factors for SMEs in Malaysia; and
2. To compare successful and less successful SMEs with relation to the identified perceived critical success factors.

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II. Literature Review

Success of SMEs has been of interest to many analyst, international associations, and policy makers. This has therefore become the subject of a great deal of analysis. However, success is a controversial issue. Besides the multi-dimensional aspect of success, variables that contribute to the success of SMEs are not collectively agreed upon by researchers. While some experts suggested that the progression of the success of businesses remain a discovery (Deakins and Freel, 1998; Dockel and Ligthelm, 2005; Ligthelm, 2010), others argued that the success of SMEs is an element of both external and internal factors (Penrose, 1999; McCline et al., 2002; Guzman and Santos, 2005; Markman and Baron, 2010).

Literature on the success of SMEs normally recognizes a few factors as to the internal and external environment of the firm. Regarding internal factors, a few researchers have endeavored to explore the attributes of SMEs and qualities of the business person as the internal factors that impact SMEs execution (Hambrick and Mason, 1984; Bates and Nucci, 1989; Story, 1994). For the firm attributes, a few investigations have uncovered that size, age, and area of the firm could be identified with business execution (for instance: Bates and Nucci, 1989; Liedholm, 2002). Then again, different researchers have indicated incredible enthusiasm for understanding the connection between attributes of the business person and business execution (for instance: Hambrick and Mason, 1984; Boden and Nucci, 2000; Rogerson, 2001).

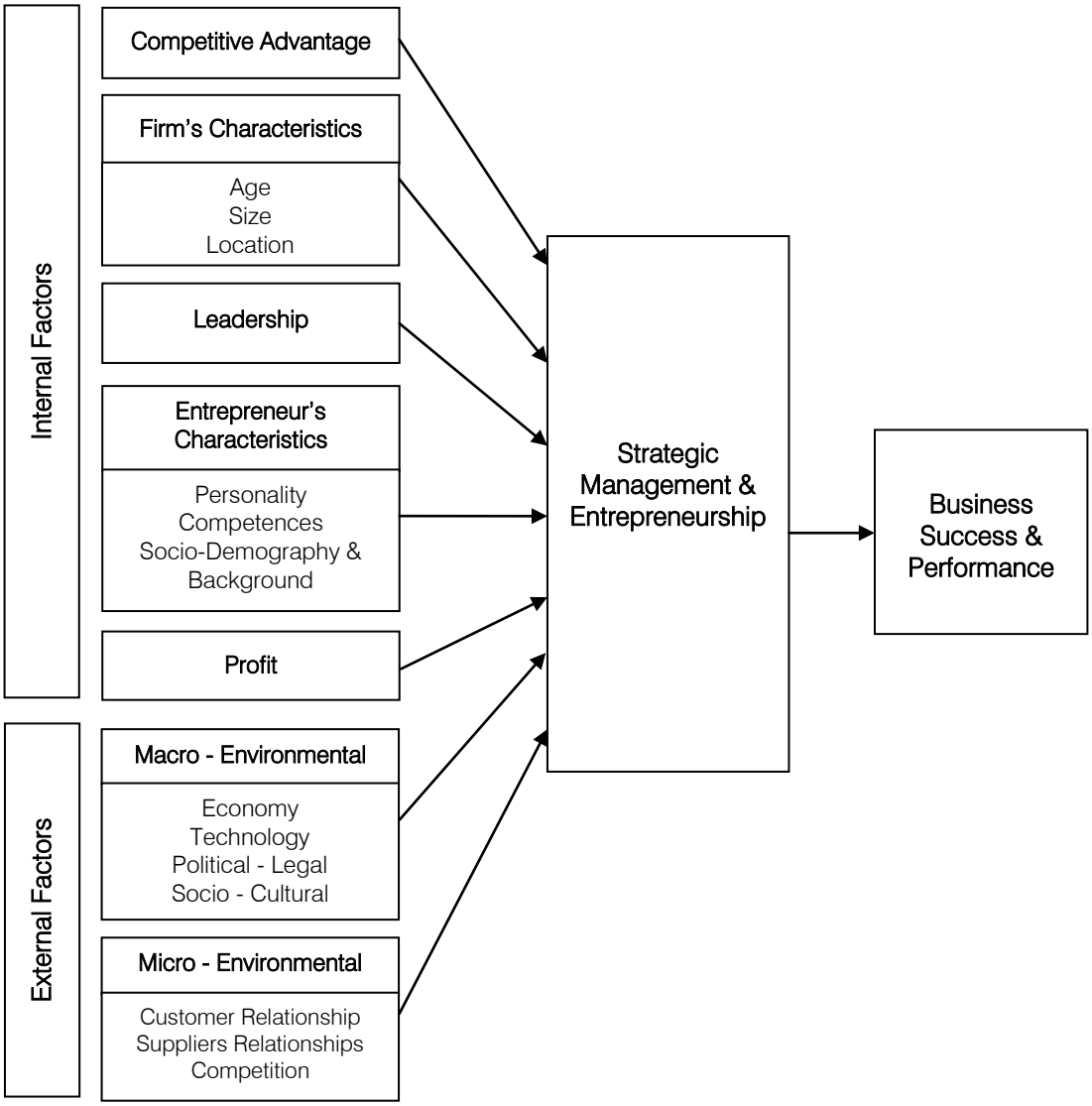
With respect to the external factors, it is broadly perceived that successful associations are those that best adjust to fit the opportunities and the limitations belonging to the environment in which they work (Kalleberg and Leicht, 1991). As indicated by Miller and Dess (1996), the external environment of the enterprise can be arranged into two, to be specific, general and aggressive environments. The general environment comprises of the political-lawful, macroeconomic, socio-social, mechanical, statistic and worldwide factors that may influence the association's exercises. Then again, the aggressive environment comprises of other particular associations that are probably going to impact the productivity of the enterprise, for example, clients, providers and contenders. A few past investigations in both developed and developing countries have recognized a scope of external critical success factors that identify with the general and additionally the focused environment of the firm (for instance: Yusuf, 1999; Swierczek and Ha, 2006; Clover and Darroch, 2003; Beck et al., 2007; Nieman, 2009).

For the general environment, information from a few sources have distinguished economic factors, specifically, monetary assets and tax collection, as key for the success of organizations (Beck et al., 2006; Chu et al., 2007; Ben Mlouka and Jean-Michel, 2008; World Bank, 2009; Benzing et al. 2009). Different investigations have discovered that political lawful factors altogether identify with business success (Yusuf, 1995; Beck et al., 2005; Jasra et al., 2011). A lot of writing has concentrated on the mechanical factors. These examinations have featured the positive connection between innovation, data, and framework and business success (Swierczek and Ha, 2003; Clover and Darroch, 2005; Nabli, 2007; Olawale and Garwe, 2010). The systems administration factor, which could be grouped under the socio-social factors, has been liable to a lot of research. Various examinations have reported a positive relationship amongst systems administration and different parts of firm execution (Duchesneau and Gartner 1990; Zhao and Aram, 1995).

Then again, an extensive and developing collection of writing has researched the focused environment of the firm in connection to three partners: clients, providers, and contenders. There is an extensive volume of distributed investigations portraying the part of client relationship administration as a key factor in business execution (Dwyer et al., 1987; Morgan and Hunt, 1994; Berry, 1995; Sheth and Parvatiyar, 1995). Correspondingly, an expanding measure of writing has featured the impact of providers on the execution of organizations (Dollinger and Kolchin, 1986; Gelinas and Bigras, 2004; Morrissey and Pittaway, 2006). Different researchers have contended that an examination of the part of contenders and counter-rivalry knowledge and activities are pivotal for the survival of a SME (Ligthelm and Cant, 2002; Rwigema and Venter, 2004; Nieman, 2006).

While various past investigations and additionally global overall associations reports have concentrated on the fundamental internal and external critical success factors for SMEs, next to no research thinks about have endeavored to build up a model that contains a comprehensive rundown of factors. The present study turns out to be more clear with regards to Malaysia as there is a shortage of research identified with business success among SMEs, especially in Malaysia. Besides, despite the fact that there are various examinations in Malaysia, these investigations have concentrated on a tight scope of success measures (financial measures) which could be the wrong way to deal with understanding entrepreneurial success (Lumpkin and Dess, 1996). Consequently, this study expects to address this information hole by exploring a comprehensive rundown of success factors that consolidate business, business visionary, and environment related factors with regards to Malaysia (see figure 1), utilizing both financial and non-financial measures of execution.

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Source: Author

Figure 1: Conceptual Framework

III. Research Methodology

It has regularly been watched (Benbasat et al., 1999) accurately that no single research procedure is inherently superior to some other. Having critically evaluated the writing methodicallly and constructed the calculated structure, a quantitative approach, utilizing deductive thinking, was used with a specific end goal to assemble proper information, test the hypothetical system and increase general understanding of the apparent critical factors that impact the success of SMEs in Malaysia. Thus, with a specific end goal to accomplish the first and second targets of this research study, an overview as a survey was done keeping in mind the end goal to acquire the coveted data.

IV. Questionnaire Design

The survey was developed in view of a careful audit of writing and an examination of already utilized and tried instruments. It was composed in both English and Bahasa Malay, it involved 26 questions. Since the study is in a Malaysian setting, interpretation of the survey turned into an extremely evident necessity. Given that Bahasa Malay is the official dialect in Malaysia, the poll must be made an interpretation of to enable members to react to the survey in the dialect that they are most alright with. Along these lines, the poll was interpreted by the researcher (From English to Bahasa Malay), and then back-deciphered autonomously by an expert confirmed interpreter, (From Bahasa Malay to English), to guarantee that the significance of each inquiry was as predictable as conceivable with the English variant. The English variants were contrasted with ensure they coordinate. A labelled five-point likert scale was intended to quantify responses. Keeping in mind the end goal to guarantee brevity, objectivity, and clearness of the poll, a pilot study was conducted on 25 SMEs utilizing snowball

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testing. The pilot study brought about couple of minor modifications of the poll.

V. Sampling & Data Collection

The initial step was to settle on the SMEs definition that will be utilized to characterize the populace. In Malaysia, a few definitions exist. Be that as it may, the official definition was utilized in view of the quantity of workers. The last was favored over the yearly turnover in light of the contention of Child (1973) who contended that work is a sufficient paradigm for the estimation of the extent of an association, since it is over every single person who are sorted out. Along these lines, this study thought about enterprises with a headcount somewhere in the range of 10 and 200 workers as SMEs. Having settled on the definition to be utilized for SMEs to characterize the populace in Malaysia, the second step comprised of the choice of an official and dependable wellspring of data to recognize the SMEs. The principal official and solid source was the site of the MITI. Having checked this site, all SMEs working in Malaysia were distinguished. In any case, the generated SMEs list was dated 2016, which is very obsolete contrasted with the research date. Keeping in mind the end goal to incorporate state-of-the-art data about SMEs, other avant-garde wellsprings of data were required. Hence, the researcher checked the Free Industrial Zone Malaysia and its official site with a specific end goal to incorporate SMEs working in the free zone of Malaysia. Having checked the index and the sites, the distinguished SMEs were cross-checked with the SME list generated from the Ministry of International Trade and Industry (MITI). The cross checking errand brought about erasing four enterprises from the distinguished beginning rundown since they had in excess of 200 workers. Having finished every one of these means, a last rundown of a la mode SMEs, containing 365 enterprises, was made. The survey was in this manner sent to every one of the 365 enterprises. The appropriation of the poll was done in two stages: The "drop and collect" stage and the online stage.

VI. Analysis & Results

a) Response rate and non-response bias

In this study, of the 365 disseminated, 88 finished polls were gotten, yielding a response rate of 24%. It ought to be clarified that the present study isn't unordinary regarding the trouble experienced in acquiring responses from SME entrepreneurs. Past researchers studying small firms have detailed comparable issues. Reid et al. (1999) expressed that a noteworthy trouble in any research that includes reviewing small organizations is accomplishing a sufficient response rate, with numerous investigations revealing rates as low as 10%.

The non-response bias was tried utilizing a comparable approach taken by Bebbington et al. (1994) in which the responses from the primary mailings of the overview survey and those from the ensuing updates were contrasted with decide any huge contrasts. Along these lines, 53 answers from the principal mailings of the overview poll were contrasted with 35 responses got after the resulting updates, by utilizing the Mann-Whitney U test. The outcomes showed that there were no huge contrasts between early respondents and late respondents as far as their impression of business success estimation and success factors.

b) Reliability and validity of the instrument

The unwavering quality of the poll was assessed by figuring the Cronbach"s alpha scores for every one of the factors. The discoveries demonstrated the success factors were solid with internal consistency esteems extending from .63 to .97. Then again, the legitimacy of the poll was affirmed by playing out an exploratory investigation on Part 2 of the survey, which measures the impact of external factors on the success of SMEs, with the rejection of the things with low internal consistency. Along these lines, 48 things were subjected to the factor examination utilizing the chief part investigation as the extraction procedure and Varimax with Kaiser Normalization as the turn strategy. The part pivoted lattice confirmed the legitimacy of all builds by demonstrating that the majority of the things stacking were huge and well over the satisfactory cut-off-point of > .50. (Hildebrandt, 1987).

c) Descriptive Analysis

Descriptive statistics were utilized to portray the fundamental highlights of the data. Frequency distributions were given to qualities of respondents and in addition attributes of the organizations. These are condensed in table 1 and table 2 separately.

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Table 1: Demographic characteristics of the participants

Characteristics of Respondents	Frequency	%	Cum %
Gender			
Male	86	98	98
Female	2	2	100
Age			
25-45	60	68	68
> 45	28	32	100
Education			
Bachelor degree	39	44	44
Master degree	15	17	61
Doctorate	6	7	68
Diploma	21	24	92
Upper secondary level	7	8	100
Did any of your parents own a business?			
Yes	58	66	66
No	30	34	100
Education of father			
Diploma	47	53	53
Upper secondary level	29	33	86
None	7	8	94
Primary level	5	6	100
Education of mother			
Upper secondary level	42	48	48
Lower secondary level	20	23	71
Primary level	18	20	91
None	8	9	100
Do you have any work experience?	88	100	100
Yes			
Years of experience			
2-5 years	2	2	2
6-10 years	50	57	59
11-20 years	7	8	67
> 20 years	17	19	86
< 2 years	12	14	100
Experience relevant to the business			
Yes	67	76	76
No	21	24	100
Total	88	100	100

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Table 2: Demographic characteristics of the SMEs

Business characteristics	Frequency	%	Cum %
Legal status of the business			
Private Limited Company	74	84	84
Public Limited Company	8	9	93
Sole Trader	6	7	100
Activity of the business			
Textile & leather industry	53	60	60
Chemical industry	20	23	83
Electrical & electronic industry	8	9	92
Food processing industry	5	6	98
Metal & engineering industry	2	2	100
Location of the business			
Industrial Zone	40	46	46
New Medina	31	35	81
Suburb	9	10	91
Old Medina	8	9	100
Business description			
Wholly family owned	51	58	58
Partly family owned	20	23	81
Privately owned	17	19	100
Age of the business			
> 5 years	80	91	91
3-5 years	8	9	100
Number of employees			
11-50	49	56	56
101-200	18	20	76
51-100	21	24	100
Annual turnover			
1.000.001-75.000.000	48	54	54
500.001-1.000.000	20	23	77
0-500.000	11	13	90
> 75.000.000	9	10	100
Total	88	100	100

d) Factor Analysis

In this study, the exploratory factor investigation was completed keeping in mind the end goal to discover connections or factors where variables are maximally correlated with each other and insignificantly correlated with different variables; and then group the variables in like manner. A central segment investigation (PCA) was conducted on 48 things of the survey instrument with orthogonal rotation (varimax).

The Kaiser-Meyer-Olkin measure confirmed the testing adequacy for the investigation, KMO = .56, which is over as far as possible prescribed by Kaiser (1974). The KMO is considered as unremarkable since it is somewhere in the range of 0.5 and 0.7 (Hutcheson and Sofroniou, 1999). Bartlett‟s test of sphericity was exceptionally critical at < 0.001, suggesting vast connections between's things for PCA. An underlying investigation was run to get Eigen values for every part in the information. Fourteen segments had Eigen values over Kaiser‟s criterion of 1 and in mix clarified 82.59% of the fluctuation. Just variables with loading of more than 0.5 were retained.

The rotation framework affirmed all the research constructs with the rise of some unique topics under the particular constructs, which are:

- Two subjects, identified with this particular construct "Access to fund" rose. These topics were named as: accessibility of back and cost of fund.
- Under the particular construct "regulatory environment", four subjects to be specific: business enlistment, regulations, bureaucracy, and corruption rose.
- For the particular construct "Government support", two subjects rose to be specific: accessibility of support and the administration of government institutions.

Besides, the exploratory factor analysis featured the connection between a portion of the constructs, as outlined below:

1. Access to data and access to innovation
2. Bureaucracy and corruption

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e) Mann-Whitney U Test

The second goal of this research study was to contrast the successful SMEs with the less successful SMEs regarding the success factors recognized in the principal objective. Financial and non-financial measures were used to order whether SMEs fell into the successful or less successful group. The financial measures included the benefit and the turnover while number of workers and individual fulfillment variables were used as non-financial success pointers.

To accomplish the second goal of the study, an arrangement of theories were recognized in view of the literature audit. Mann Whitney U test was used to test these speculations for any contrasts amongst successful and less successful SMEs. Reference section 1 demonstrates the results of the Mann-Witney test in connection to every one of the variables tested in these speculations. The factual correlation between the successful and less successful groups of SMEs offered help for the impact of internal and external factors on business success. The discoveries demonstrated noteworthy contrasts between less successful and successful SMEs which is meant in the mean positions and measurably critical p-values ($p < 0.05$). It is clear from the addendum that the internal correlated factors included: age, size, and area of the business; age, education, family background, and experience of the entrepreneur; administrative and functional capabilities of the entrepreneur; and requirement for accomplishment and hazard taking affinity of the entrepreneur. Then again, the external factors distinguished were: accessibility of back, tax assessment, access to innovation, access to systems administration and access to customers and suppliers.

VII. Conclusion

This paper sought to recognize the apparent factors that influence the success of SMEs in Malaysia. The results of the quantitative study offered a general understanding and some underlying experiences on the impression of business proprietor and managers. Consequently, this quantitative study helped in the development of an underlying contextual model about the apparent success factors for SMEs in Malaysia (see reference section 2).

The discoveries could be all around considered by entrepreneurs and policy makers. The abilities of the entrepreneur, the distinguishing proof of practices reflecting skills that have causal associations with business success could help business owners and managers in perceiving the need to enhance such capabilities through preparing and education. Then again, the discoveries of the study could help policy makers to give proficient preparation programs that are custom fitted to the requirements of the entrepreneurs. Besides, the findings could help policy makers to expand the accessibility of funds, give an empowering regulatory environment to support the SMEs sector in Malaysia.

Nonetheless, although the results of this quantitative study are valuable, yet, they remain constrained and should be carefully deciphered since the view of the significance of factors, originated from the literature in various settings/context, were given to respondents. This did not provide enough understanding of participants perspective of the vital factors in the particular context of Malaysia which may be not quite the same in other different context. Consequently, a qualitative study is needed in order to overcome this constraint.

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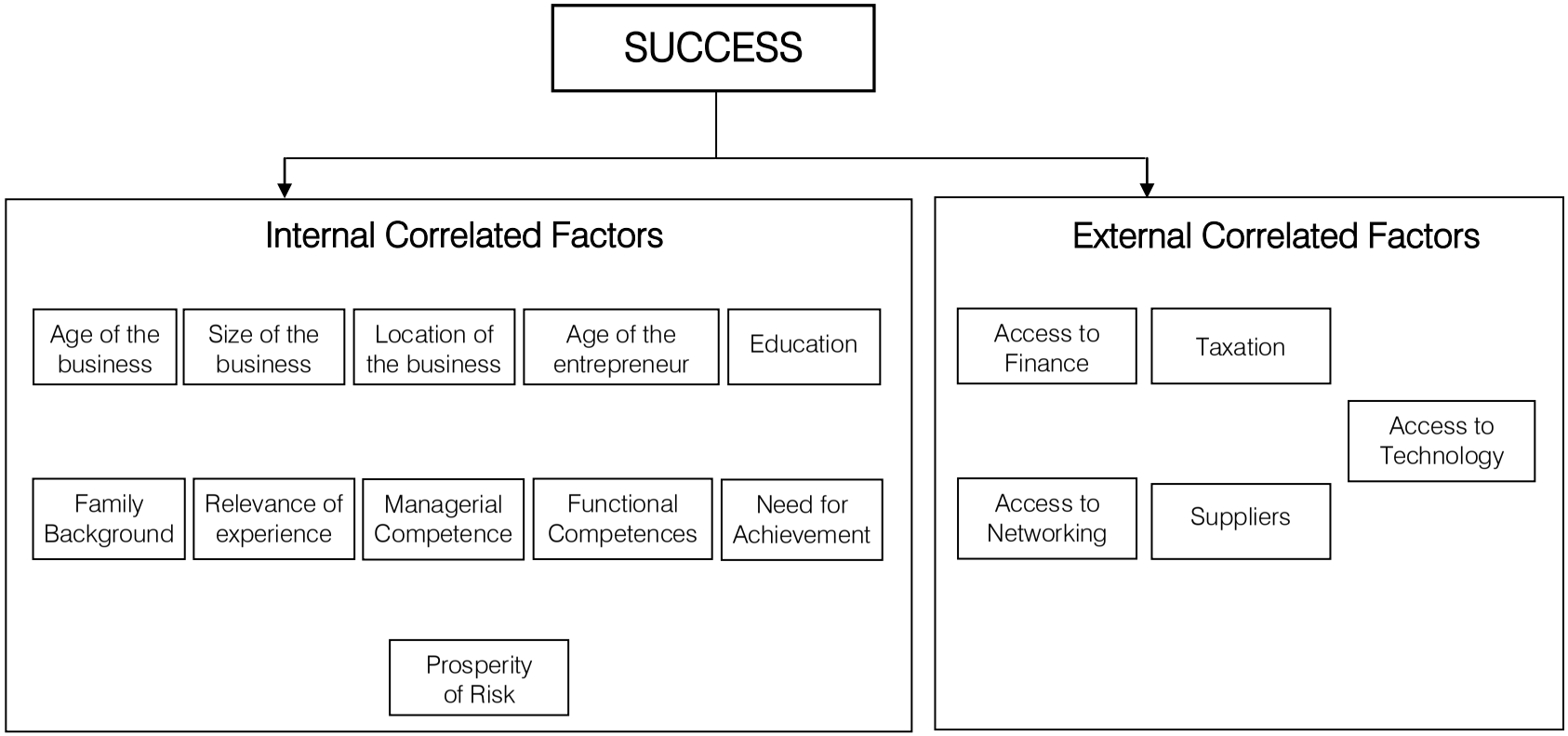
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Appendix I

Variable	Mann Whitney U Statistic	Mean Rank (Less Successful)	Mean Rank (Successful)	Z value	Significance
Age of the Business	687.5	37.83	48.5	-3.81	.000
Number of Employees	689	37.88	48.47	-2.00	.045
Annual Turnover	633.5	36.2	49.48	-2.60	.009
Location of the Business	668.5	37.26	48.85	-2.22	.026
Gender of the Entrepreneur	852.5	46.17	43.5	-1.84	.066
Age of the Entrepreneur	709.5	50.5	40.9	-2.12	.034
Education of the Entrepreneur	192	22.82	57.51	-6.41	.000
Years of Work Experience	763	40.12	47.13	-1.39	.167
Relevance of Experience	330.00	27	55	-6.74	.000
Education of Father	506.00	32.33	51.8	-3.84	.000
Education of Mother	540.5	33.38	51.17	-3.39	.001
Self-Employment of Parents	390.5	28.83	53.9	-5.43	.000
Need for Achievement	651	36.73	49.16	-2.36	.018
Locus of Control	888	45.09	44.15	-.22	.825
Propensity for Risk-Taking	501	32.18	51.89	-4.00	.000
Entrepreneurial Competences	848.5	42.71	45.57	-.54	.599
Managerial Competences	705	38.36	48.18	-1.98	.047
Functional Competences	657	52.09	39.95	-2.41	.016
Finance Cost	845	42.61	45.64	-.57	.569
Availability of Finance	391.5	60.14	35.12	-4.70	.000
Taxation	613	53.42	39.15	-3.019	.002
Corruption	833.5	46.74	43.15	-.669	.507
Bureaucracy	822.5	47.08	42.95	-.777	.440
Regulations	812	41.61	46.24	-.998	.323
Business Registration & Licenses	788	48.12	42.33	-1.432	.166
Service of Government Institutions	864.5	45.8	43.72	-.401	.692
Availability of Support	714.50	50.35	40.99	-1.752	.080
Access to Technology	440	30.33	53	-4.353	.000
Access to Information	718.5	38.77	47.94	-1.929	.054
Availability of Infrastructure	889.5	45.05	44.17	-.295	.818
Cost of Infrastructure	734.5	49.74	41.35	-1.582	.115
Access to Network	390	28.82	53.91	-4.986	.000
Access to Customers	378	28.45	54.13	-5.932	.000
Importance of Customers	816	41.73	46.16	-.967	.334
Access to Suppliers	482	57.39	36.76	-4.445	.000
Importance of Suppliers	747	49.36	41.58	-2.068	.039
Competition	740	39.42	47.55	-1.470	.143

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Appendix II



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